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# **Citizen Hariri and neoliberal politics in post-war Lebanon**

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Thesis Submitted for the Degree of Doctor of Philosophy

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January 2012

### **Statement of Original Work**

I certify that this thesis is the result of my own research and that it contains no material which has been accepted for the award of any other degree or diploma in any university or tertiary institution and, to the best of my knowledge and belief, contains no material previously published, written or produced by any other person except where due reference is made in the text. I give consent to copies of this thesis, when deposited in the University Library, being available for loan and photocopying.

## **Abstract**

The biography of the Lebanese businessman-politician Rafiq Hariri explores the different economic, political, cultural, and “imperial” projects contained in neoliberalism. Rafiq Hariri (1944-2005) accumulated great wealth as a contractor in Saudi Arabia during the Lebanese civil war (1975-1990), served as Lebanese prime minister (1992-1998, 2000-2004), and pushed through a neoliberal reconstruction programme. In February 2005 he was assassinated, prompting a UN investigation. Hariri belonged to the “transnational capitalist class” but his rise is not just due to the impersonal dynamics of global capitalism, it must also be placed within the specific historical sociology of Lebanon: the production and reproduction of classes, elites, networks, and the culture of sectarianism.

Rafiq Hariri’s rise is due to changes in Lebanon’s role in the world economy and in its class structure. Thanks to Saudi support, Hariri was the most successful member of a “new contractor bourgeoisie” of Lebanese who had grown wealthy in the Gulf and pursued a neoliberal project in post-war Lebanon. Hariri and allied technocrats put in place two neoliberal rent-creation mechanisms: reconstruction of Beirut’s city centre and financialisation through government over-borrowing. Former militia leaders prevented further neoliberal reforms: privatisation and cutting welfare spending, which was a patronage resource. Class interest was mediated by elites, which is a more open category than class, not least because it incorporates sectarian identity. Hariri transformed himself from a “national” leader to a specifically “Sunni” leader from the mid-1990s onwards. His sectarian provision of health and education services was a response to pressure from rival elites on his neoliberal project. His philanthropy reproduced the culture of sectarianism. Changes in US imperial strategy from the 1980s to 2005 affected Hariri’s relationship with Damascus. US-Syrian conflict led to Saudi-Syrian tension and curtailed Hariri’s room for manoeuvre in Lebanon. Hariri’s network of technocrats, experts in sectarian mobilisation, Syrian regime members, etc. is an artefact that allows his biographer to locate agency in neoliberal globalisation.

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### **Note on Transliteration**

Throughout this thesis I used a simplified version of the *International Journal of Middle East Studies* (IJMES) transliteration from Modern Standard Arabic guidelines. I use the diacritic ‘ for the glottal stop *hamza* and for the consonant *ayn*. To facilitate readability, I use the most common English spelling names for personal or place names (example Gemayel, Sidon).

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## 1. Introduction

The start of the film “bosta” offers an image of Lebanese society crammed into a highway traffic jam: Muscular young men in a German convertible, turbaned clerics and nuns in their habits, women with headscarves and women with a perm, farmers ferrying sheep on a truck, a Gulf tourist in his SUV, and a Lebanese “madam”, surveying the chaos from a balcony, a Sri Lankan maid blow-drying her hair. The broken-down bus of the main protagonists – a troupe of new-age dabke dancers – blocks the road. The crowd becomes ever more agitated, honking and screaming in frustration, until, in a climactic scene, a young man jumps out of his car shouting: “Wayn al-dawla?” Where is the state? Suddenly the crowd falls silent as a motorcade of policemen and black limousines smoothly glides past on the opposite lane, carrying a politician, unseen behind tinted windows. Despite its absence – or because of it – the Lebanese state establishes a hierarchy, distinguishing those who travel freely from those stuck in an eternal traffic jam.

In real life, one particular motorcade – “that pre-eminent Lebanese gauge of post-war status” – was “the grandest of them all, stretching for hundreds of metres and bristling with anti-bomb devices, deployed atop accompanying vehicles. An ambulance follows in its wake.” (Young, 1998 p. 5). This is a description of the convoy of Rafiq Hariri, prime minister from 1992 to 1998 and 2000 to 2004. His social position at birth did not mark Hariri out as a future leader of his country. He was born in 1944 as the son of a smallholder in the southern city of Sidon. When Hariri was growing up in the 1950s and 1960s, Lebanese politics was dominated by a few political families who represented their sectarian clientele in Lebanon’s multi-confessional society. The 1950s and 1960s were a period of political ferment challenging the political elite: Hariri was an Arab nationalist youth activist in Sidon and many of his generation entered politics as members of popular movements or militias. Yet it was not political activism that catapulted Hariri to political leadership. In 1964 Hariri emigrated to Saudi Arabia because he could not afford his university studies anymore and sought to earn money abroad. While Lebanon sank into civil war from 1975 to 1990, Hariri became fabulously rich as a construction contractor in Saudi Arabia. In the 1980s Hariri acted on behalf of

King Fahd as a “Saudi mediator” between the factions of the Lebanese civil war. He returned to become prime minister in the post-war Lebanese republic, overseeing a neoliberal reconstruction programme. Lebanese politics at the time was dominated by neighbouring Syria, which kept troops in the country, supported Hizballah’s struggle against Israeli occupation in southern Lebanon, and marginalised its opponents while keeping its allies in check through “divide and rule” tactics.

Hariri’s precautions against assassination were well-founded but futile: On 14<sup>th</sup> February 2005 a bomb tore through his motorcade, killing Hariri and 21 others. Lebanon’s growing anti-Syrian opposition immediately accused Syria of committing the crime, supported by the United States and France. An international investigation was conducted by the United Nations to identify the perpetrators and eventually a tribunal was established to try them. The assassination and the subsequent UN investigation escalated the already sweltering political conflict over Syria’s role in Lebanon. Rival demonstrations of several hundreds of thousands of Lebanese congregated in Beirut, either to demand an end to Syrian “occupation” or to thank “sisterly Syria” for its “guardianship”. The coalitions behind each demonstration came to be known by their dates as March 8 and March 14. The former was predominantly Shi’i and later came to include a portion of the Christian community when it was joined by Michel ‘Awn’s partisans, while the latter was led by Hariri’s son Sa’d and included the main political movements of the Sunni and Druze communities, as well as many Christians. March 14 lionised Rafiq Hariri as a defender of the Lebanese nation against Syrian encroachment. In April 2005, Syria withdrew its troops from Lebanon.

Existing English-language studies of Rafiq Hariri’s life regard him as “Mr. Lebanon”, a “larger than life” figure who changed his country by sheer force of personality (Blanford, 2006; Iskandar, 2006). In this study, Hariri’s political power is not explained with reference to his charisma, charm or intelligence, however great they may have been. Hariri’s rise and rule are understood with reference to his wealth and support from the Saudi monarchy. In more general terms, this political biography of the businessman-politician Rafiq Hariri is a study of neoliberal politics. Neoliberalism is a

form of capitalism that replaced the “embedded liberalism” of the post-World War II period in the late 1970s. This intensification of global capitalism had a profound effect beyond the economy. Neoliberalism is therefore understood as an economic, political, cultural, and “imperial” project. The capitalist Rafiq Hariri and the technocrats he hired to oversee Lebanon’s post-civil war reconstruction were agents of a neoliberal economic project to extend market logics into all realms of social relations and a political project for the restoration of capitalist class power. As a Saudi client, Hariri was also an agent of an “imperial” project, namely the assertion of US power in the Middle East. Finally, as Hariri increasingly turned into a specifically Sunni leader in the late 1990s, he helped reproduce sectarian discourses and practices. This sectarian populism was part of his struggle to salvage and expand the neoliberal economic and political project in Lebanon. This political biography of Rafiq Hariri therefore addresses several wider questions about neoliberalism in general and the way it played out in Lebanon in particular.

Three questions are addressed in this thesis. Firstly, did neoliberalism produce economic and social development in Lebanon? Hariri and his technocrats put in place neoliberal rent-creation mechanisms while rival elites sought to use state welfare spending as a patronage resource. The patterns of conflict and cooperation between Hariri and rival elites shaped neoliberalism in Lebanon. The result was currency stability but also skyrocketing government debt and structurally ingrained poverty. The economic effect of Hariri’s neoliberal economic policies therefore has to be understood in the specific political context of Lebanon. The second question asks whether neoliberalism strengthens or weakens universalist or particularist identities. Lebanon has a deeply sectarian society and political system, the latter based on confessional “power sharing”. Does neoliberalism strengthen or weaken sectarianism in Lebanon? Rafiq Hariri’s sectarianism displays an interesting pattern. The technocrats he hired to realise his neoliberal project were largely recruited meritocratically. However, from the mid-1990s onwards, Hariri also styled himself increasingly as a specifically “Sunni leader” by providing health and education services to his confessional clientele to win elections. This mixture of meritocracy at the management-end and sectarian populism at the grassroots was designed to ensure the

smooth functioning of neoliberal capitalism but it also reproduced the “culture of sectarianism”. The final question concerns the relationship between neoliberalism and American “empire”: is neoliberalism an instrument of or a constraint to the global power of the United States? Hariri’s position in Lebanon was deeply affected by changes in US strategy, which affected his relationship with Syria. Neoliberalism came to the fore in US-Lebanese relations when the Hariri government managed to avoid financial crisis in 2002. However, the way in which Hariri managed to do this cannot be captured by the standard account of Washington protecting the interests of Wall Street capital – for the simple reason that US finance had no stake in Lebanese government debt. Lebanon is therefore an interesting case study for the relationship of US empire and neoliberalism.

### **1.1. Neoliberalism**

Neoliberalism is a slippery concept that requires a clear definition for it to be more than “an intellectual swearword” (Williamson, 2004 pp. 2, FN 1). Neoliberalism is the designation of an ongoing period in the history of contemporary capitalism, which started in 1979. It reversed the phase of “embedded liberalism”, which was based on class compromise and “embedded” markets (Glyn, 2006; Harvey, 2005). It is associated with early neoliberal experiments in Chile and the leadership by core countries such as the United States under Ronald Reagan and Britain under Margaret Thatcher. However, the economy cannot be analysed separately from the political. Neoliberalism is therefore defined as an economic, political, cultural, and “imperial” project. Neoliberalism offers a set of reproducible discourses and practices. However, these discourses and practices are contradictory within themselves and they are applied unevenly, depending on local political and social circumstances. The biography of Rafiq Hariri explores the different aspects of this project and its uneven implementation in Lebanon. In the rest of this section, the different neoliberal projects will be discussed in turn in order to generate a set of research questions.

Neoliberalism represents an intensification of global capitalism and hence an economic project:

“As a new economic project oriented to new conditions, neoliberalism calls for: the liberalisation and deregulation of economic transactions, not only within national borders but also – and more importantly – *across* these borders; the privatisation of state-owned enterprises and state-provided services; the use of market proxies in the residual public sector; and the treatment of public welfare spending as a cost of international production rather than as a source of domestic demand.” (Jessop, 2002 p. 454)

This “utopian project ... for the reorganisation of international capitalism” (Harvey, 2005 p. 19) is based on the premise that the market is a superior mechanism for the allocation of resources. This leads proponents and opponents of neoliberalism to a debate about the proper role of the state in the economy and the “right policies” that should be adopted in order to bring about economic growth and development. Framed in this way, political economy is a set of technical questions which appear largely non-political. Outcomes are explained with reference to “too much” or “too little” neoliberalism, whether neoliberal policies were implemented too faithfully or not faithfully enough. This framing of the question has produced some interesting scholarship on Lebanon (Gaspard, 2004; Makdisi, 2004). Some accounts see Lebanon as too liberal (Gaspard, 2004), while others see Lebanon as increasingly illiberal (Henry, and Springborg, 2001). Hariri and his technocrats would argue that Lebanon required more neoliberalism, while his detractors decried his policies as hurting the poor. Policy debates are of course important but rather than reducing the analysis of Lebanese neoliberalism to a shopping list of policies, the way in which these policies came about needs to be analysed to reveal the specifically Lebanese politics that shaped the country’s neoliberalism.

Neoliberalism is not simply a politically neutral technocratic programme but has strong distributive effects. As such, it is a political project shaped by those who stand to gain from it. For now, the “political” is defined in economic terms, namely as the struggle of different classes over the appropriation of surplus (Hindess, 1987 p. 16; Miliband, 2004 pp. 16-17). Economic interest is not the only aspect of the “political”, nor does it necessarily determine other aspects of politics. The definition of the “political” will be

broadened out when the other neoliberal projects are being discussed. However, as neoliberalism is defined first and foremost as an intensification of capitalism, and because the object of study here is a businessman who went into politics, the economic aspect of politics is the most pertinent starting point. Through various mechanisms, such as wage repression or financialisation, neoliberal restructuring of state and economy has increased profits and reduced wages, thus reversing the cooperative relationship between capital and labour that had marked the “embedded liberalism” of the 1950s to 1970s (Duménil and Lévy, 2004; Harvey, 2005; Glyn, 2006). Neoliberalism is therefore “a political project to re-establish the conditions for capital accumulation and to restore the power of economic elites” (Harvey, 2005 p. 19). This perspective on neoliberalism harks back to Marx, who regarded the economy as deeply political because it structures society into classes, with capitalists appropriating surplus produced by labour. There is both a domestic dimension to the neoliberalisation of the economy and a global one, with “finance” in the United States being the main beneficiary of financial and trade liberalisation. The challenge in tracing this neoliberal politics – both domestic and international – is to identify agency: are the beneficiaries of specific policies also its instigators? Or is there some functionalist engine which makes the system run smoothly in the interest of capital? The elites who benefit from neoliberal restructuring were not necessarily the already dominant groups in society but could include new groups who seized opportunities opened up by unfettered markets. The Marxist account of neoliberalism provides an invaluable starting point for analysing the politics of neoliberalism but at times, this literature betrays a somewhat paranoid mindset, detecting a cabal of “finance” behind every twist and turn of neoliberal globalisation. Authors such as Duménil and Lévy (2004a, p. 16) document convincingly that “finance” - “the complex of upper capitalist classes, whose property materialises in the holding of securities (stocks, shares, bonds, Treasury bills, etc.), and financial institutions (central banks, banks, funds, etc.)” – benefit from neoliberalism but they never prove the agency of finance in bringing it about. There is an important sociological dimension missing in those Marxist accounts that rely exclusively on class for analysing social structure and politics. Neoliberalism is more open and unpredictable and can have unintended consequences.

An important political effect of neoliberalism is the restructuring of the state. The neoliberal state protects property rights, removes obstacles to “free” markets, and makes the national economy “competitive” by providing a friendly business climate (Harvey, 2005 pp. 64-67). Finally, it is important to note the contradictions between neoliberalism as market utopianism and as a political project. Neoliberal policies and rent-creation may be justified with reference to market ideology but may actually be politically motivated. Without a perspective on the politics of neoliberalism, it is impossible to judge whether it leads to sustained economic growth and social development. More detailed questions follow from this: Which classes or elites appropriated surplus or rent? What institutions did they instrumentalise? Hariri was a driving force of neoliberal policies in Lebanon. The technocrats he put in charge of ministries and government agencies put in place neoliberal rent-creation mechanisms which provided investment opportunities for the billionaire businessman.

Neoliberalism has been interpreted as an “imperial” project. There is a debate over whether the expansion of neoliberal capitalist practices and discourses helps or hinders the power of states at the core of the world economy – especially the US. In other words, is neoliberal globalisation a tool for the expansion of US power through financial and trade liberalisation? Or does the globalisation of markets undermine the power of all states, including the US? Neoliberalism is a US imperial strategy in the sense that it strengthens US capital, especially Wall Street finance. The role of the US dollar as the global reserve currency softens the United States’ balance of payments constraint because it draws in capital even with a large deficit in trade and services (Gowan, 1999; Dumenil and Levy, 2004b). This influx of capital allows US finance to reinvest across the globe and, in effect, become the world’s banker. “Global finance” is therefore not truly global but very much American. The political expression of this constellation has been referred to as the “Wall Street-IMF-Treasury Complex” (Wade, 2000 p. 109; Harvey, 2005 p. 92), in which the US government uses its “structural power” to shape the rules of the global political economy to benefit US finance (Soederbergh, 2004 p. 8). Crucially, this includes the manipulation of financial crises in developing economies to the benefit of creditors on Wall Street and the detriment of debtor countries (Stiglitz, 2002; Wade, 2000).

The US-led invasion of Iraq in 2003 threw up new questions about the relationship of neoliberalism and US power because it seemed to signal the return to a more muscular and militaristic “new imperialism” (Ferguson, 2005; Harvey, 2003; Panitch and Gindin, 2003). There is of course no contradiction in propping up US power both by economic and military means, making use of both the capitalist and the territorial logics of international power, which are defined as follows: “The capitalist holding money capital will wish to put it wherever profits can be had, and typically seeks to accumulate more capital” whereas “politicians and statesmen seek outcomes that sustain or augment the power of their own state vis-à-vis other states”.<sup>1</sup> Again, neoliberal globalisation is highly contradictory: it may help or hinder the expansion of US state power at different moments and there is a dialectic between territorial and capitalist logics of international power: as long as neoliberal globalisation furthers the power of a specifically American capital – such as US finance capital – then US state power is enhanced. However, it can have unintended consequences, for instance when the power of finance capital actually harms the interests of the United States. Arguably, this is what happened when the subprime crisis hit US capitalism and undermined both the US model of capitalism and the country’s ability to finance military intervention abroad.

For the present purposes, the uses of territorial and capitalist logics in the projection of US global power are best understood in three historical phases. Under President Ronald Reagan (1981-1989), both capitalist and territorial logics of power were intensified in the “second Cold War” (Halliday, 1986). The liberalisation of global finance and trade were combined with an intensification of Cold War confrontation. The “third world” and the Middle East were a particular source of anxiety for Washington. The end of the Cold War led to a new focus on neoliberalism over old-fashioned militarism. President Bill Clinton (1993-2000) pushed the institutionalisation of neoliberal globalisation in international bodies such as the World Trade Organisation (WTO) and the IMF. Military action tended to take the form of

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<sup>1</sup> The distinction was developed by Arrighi and taken up by Harvey (2003 p. 27).

multilateral humanitarian intervention, which expressed a newfound optimism of America's ability to impose what Clinton's predecessor George Bush (1989-1993) had called the "new world order". The presidency of President George W. Bush (2001-2009) saw a return to a more muscular militarism, epitomised in the "global war on terror" and the invasion of Iraq, which have been characterised as a "new imperialism" that puts the territorial logic firmly over the capitalist one (Harvey, 2003). These different phases are highly significant for Lebanese politics and for Rafiq Hariri's career in particular because they deeply affected Saudi-Syrian relations and hence the Hariri's relationship with Damascus.

Neoliberalism is also a cultural project. Culture is not understood as essential values and norms but practices and discourses which can be both reproduced and transformed, and which lend culture its structural coherence (Sewell, 1999). Even more narrowly, the interest here is in the original construction of difference: class, gender, race, ethnicity, or sect (Laclau and Mouffe, 1985). Classical Marxist accounts tend to be too focused on class, while other differences such as gender, ethnicity, or sect, are often assumed to simply derive from the economic "base". The other extreme is the constructivist assumption that all social order is transitory, "a whirlpool appearing in the flow of a river, retaining its shape only for a relatively brief period and only at the expense of incessant metabolism and constant renewal of content" (Bauman, 2000 p. 29). The perspective adopted here is a middle way suggested by Bourdieu, a "structuralist constructivism" (Bourdieu, 1991; Bourdieu, 2002; Bourdieu and Wacquant, 1992). Social space is made up of separate but interconnected "fields". Agents occupy objective position in these fields but their position is constantly being (mis-)recognised. This creates a politics of group-making, where group divisions are relatively stable over time – as is the case with Lebanese sectarianism. Bourdieu notes that the economic field does tend to impose its hierarchy on other fields but it does not *determine* the structure of other fields. In the Lebanese case, this means that the country's economic structure does not tell us all we need to know about the (mis-)recognition of sectarian identity, the meaning attached to sectarian identity.

Characterising neoliberalism as a cultural project is not easy and the cultural assumptions of neoliberalism are not stated as explicitly as its economic assumptions. A good way of approaching this cultural project is to differentiate between the promotion of universalist and particularist identities, between common humanity on one hand and racism, sexism, sectarianism, or ethnicity on the other. With regard to Lebanon, the question is whether neoliberalism helps or hinders the reproduction of sectarianism. On the surface, neoliberalism embraces the universal values of individual liberty and free choice. Market rationality is said to trump ethnic or sectarian rationality because actors are assumed to prefer the accumulation of wealth over violent conflict and the two are assumed to be mutually exclusive. For instance, the ideal labour market under a neoliberal order is one in which recruitment is meritocratic, rather than along lines of ethnicity, race, or gender, because this arrangement produces more efficient outcomes than segregated labour markets. Secondly, commerce is said to foster tolerance and peace by fostering mutually beneficial interaction between disparate groups and creating wealth (de Soysa, 2011). Finally, neoliberalism is also based on consumerism, “the set of beliefs and practices that persuades people that consumption far beyond the satisfaction of physical needs is, literally, at the centre of meaningful existence and that the best organised societies are those that place consumer satisfaction at the centre of all their major institutions” (Sklair, 2000 p. 5). Under neoliberalism, the ability to consume is priced above the desire to enforce the dominance of an ethnic or sectarian group.

However, markets are not just neutral reflections of the impersonal forces of demand and supply, they comprise of complex webs of social relations with their own power relations, including ethnic or sectarian hierarchies (Swedberg, 2003 p. 108). If market rationality is not the only determinant of choice, it is not clear why it should trump individual preferences for ethnic or sectarian goals. Moreover, if “free” markets allocate unequal benefits to participants according to a sectarian or ethnic logic, then commerce may actually foster conflict rather than mutual tolerance (Chua, 2003). Similarly, consumerism is not an egalitarian force. Especially in societies with high income inequality, distinctions in consumer taste can work to differentiate groups

from each other.<sup>2</sup> Furthermore, those elites who push for neoliberal restructuring of state and economy often use populist appeals to the electorate to win elections (Weyland, 1999) – including appeals to sectarian or ethnic identity. Finally, the weakening of state power associated with neoliberalism has been linked to secessionist ethnic and sectarian challenges to the state (Amin, 1997 pp. 55, 68, 72). Some authors therefore argue that neoliberalism is inherently racist (Roberts and Mahtani, 2010) but this is somewhat simplistic because multiple contradictory logics are at work at different sites of neoliberalism. For instance, Wallerstein observed that the “cadres” at the mid-level and managerial level of companies or bureaucracies are recruited according to universalist principles (Wallerstein, 2007 p. 40). These mid-level professionals tend to be the ones who make capitalist enterprises and states run smoothly, providing an incentive for putting merit over identity. The general question regarding neoliberalism is whether it strengthens particularist or universal identities. The specific question with regard to Lebanon is whether neoliberalism helps or hinders the reproduction of sectarianism.

Neoliberal globalisation is an economic, political, “imperial”, and cultural project. Neoliberalism is therefore better understood as an “assemblage” (Larner, 2009 p. 1577) of projects that are often contradictory within and among each other than simply as one single coherent “thing”. The biography of Rafiq Hariri offers a useful way of exploring the different neoliberal projects. In order to illustrate this usefulness, three questions will be answered: Why conduct a country-level study of neoliberal politics? Why choose Lebanon as a case study? And why focus on the political biography of the businessman-politician Rafiq Hariri? The state continues to be relevant in the age of neoliberal globalisation. Global capitalism is a total “system” reshaped by global agents such as transnational companies, but there is still a wide

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<sup>2</sup> This goes back to Bourdieu’s work on taste as a means of social differentiation and hierarchy (Hartmann, 2007 p. 49). A recent example of this consumerist condescension in Lebanon is a list of “100 reasons why we support March 14”, published on an unofficial website of Lebanese Forces supporters, a predominantly Christian party. The list mixes political standpoints with consumption preferences such as “we believe in deodorant” or “we wear Prada, Gucci, and Dolce and Gabbana”. By implication, the predominantly Shi’i March 8 opposition group is supposedly less discerning with regard to personal hygiene or designer clothing. “Ouwet Front” website, available at <http://www.ouwet.com/kennedy/humor/100-reasons-why-we-support-14th-of-march/>, viewed on 21<sup>st</sup> February 2011.

local variation in types of capitalism in various countries. The state is the agent and the terrain of struggle for the neoliberalisation of politics, economy, and culture and local elites shape the scope, extent, and limits of neoliberal globalisation (Tripp, 2001).

“Actually existing neoliberalism” requires “a careful mapping of the neoliberal offensive” at local sites (Peck and Tickell, 2002 p. 381):

“This means walking a line of sorts between producing, on the one hand, over-generalised accounts of a monolithic and omnipresent neoliberalism, which tend to be insufficiently sensitive to its local variability and complex internal constitution, and on the other hand, excessively concrete and contingent analyses of (local) neoliberal strategies, which are inadequately attentive to the substantial connections and necessary characteristics of neoliberalism as an extra-local project.” (Peck and Tickell, 2002 p. 382)

Why choose Lebanon as a case study? The case studies most commonly selected to study the effects of neoliberal globalisation in Middle Eastern countries are those economies which shifted from state-led development to a more open economic system. Accounts of neoliberal politics in the Middle East revolve around the challenge to maintain populist coalitions in the Arab republics (Ayubi, 2001; Owen, 2000; Hinnebusch, 2000) or the inability to transform rentier states in the Gulf into extractive states (Chaudhry, 1992; Chaudhry, 1997). Lebanon does not fit this framework. In contrast to other Middle Eastern countries, the country had never experienced state-led development. Pre-civil war Lebanon was “an oddity in the post WW2 world” and “the only *laissez-faire* economy in the developing world” (Gaspard, 2004 p. XIX; Shehadi, 1987 p. 5). Even the civil war did not result in a “delinking” from the global economy but the re-embedding of the Lebanese economy in different global capitalist networks – not least via militia finance (Hourani, 2010). Some authors argue that the post-civil war economy was less liberal than its predecessors because of a blurring of the line between the public and private sectors.<sup>3</sup> Yet arguing along those lines would be to assume that politics, economy, and culture can only go in one or the other unilinear direction: more or less neoliberalised. However, if neoliberalism is an

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<sup>3</sup> Karim Pakradouni, “Arabising Lebanese Politics”, *Al-Sharq Al-Awsat*, 25 April 1997, reprinted in English in: *Middle East International (MEI)*, 16 May 1997, p. 21 – 22. See also Henry and Springborg (2001 pp. 217-221)

assemblage of deeply contradictory projects, then the uneven nature of neoliberalisation can be studied even in a Lebanon that is supposedly less liberal. The best way of combining the general and the specific in the study of neoliberalism is to think of general reproducible practices and discourses as a “toolbox”, and to analyse their actual use in specific sites.

Why choose the political biography of Rafiq Hariri as a study of neoliberal politics? This is a narrowly political biography, which traces the political career of the businessman rather than engaging closely with Hariri’s personal development. Readers who are looking for the “rosebud” that was driving citizen Hariri will be disappointed. Biography is a “messy” form of inquiry that defies the “scientific” rigour expected in contemporary mainstream political science which revolves around causal inference between dependent and independent variables (King, et al., 1994 pp. 76-91). Biography does not allow for the neat distinction between “dependent” and “independent” variables as “lives have to be written forward just as they were lived” (Owen, 2004 p. ix). However, this actually solves a problem of the scientific method, rather than devaluing historical narrative as an approach. Positing that one variable is dependent on another suggests that causality can only ever run one way. This leads to stark conclusions. For instance, does the economy shape sectarianism or vice versa? Either Lebanese market capitalism is dysfunctional because of sectarianism (Makdisi and Marktanner, 2009) or capitalists impose sectarianism as a form of “false consciousness” (Ofeish, 1999). This focus on outcomes and the neat distinction of dependent and independent variables misses the processes by which these variables – sectarianism, the economy – affect each other. The scientific method cannot describe the processes by which an actor (such as Hariri) makes decisions with regard to the accumulation of economic capital or his posture as a sectarian leader. The “scientific” methodology adopted in the study of politics is simply a heuristic device, and often a useful one at that, but it is not an exact representation of social reality. By focusing on outcomes rather than processes, an overly scientific method often only provides snapshots of social situations. It cannot handle multi-dimensional processes involved in politics in general and neoliberal politics in particular.

It is useful here to return to Bourdieu's conception of "fields" to critique an overly scientific method:<sup>4</sup> Social space is made up of interconnected but autonomous "fields" – for instance economic or cultural – which have knowable and objective structures. An actor's position depends on the endowment of "capital" – economic, cultural, social and symbolic. Political capital is a form of symbolic capital, namely credibility. Actors who are close to each other in their endowments make up objective social groups. The way these structures are "recognised" is itself a field of struggle because they are always in some way "misread": in Lebanon, for instance, should sectarianism be prior to class or vice versa? The methodological point, here, is that mainstream "scientific" method can be overly reductive by not acknowledging the closely interconnected nature of such fields. The scientific method tends to focus exclusively on one particular field. The scientific methodology values "parsimony", which refers to reducing the dynamics of the field to a minimum of variables. Yet an actor such as Hariri was not just a businessman acting in the economy, he was also a Saudi client acting on behalf of King Fahd, and a Sunni from Sidon. These identities and positions overlap. Capital accumulated in one field – the economy – can be used in the field of (political) culture, where difference is being constructed. Chapter 5 describes how Hariri converted his "economic power" into "symbolic power" to become the prime political "representative" of the Sunni community. Bourdieu's conception of separate "fields" also avoids economic determinism. Bourdieu accords the economic field a greater propensity to structure the hierarchies of the other fields but this does not imply simple "determination in the last instance". The superstructure cannot be "scientifically" derived from the "base" (Bourdieu, 1991 p. 230; Bourdieu and Wacquant, 1992 pp. 109-110). Bourdieu's conception of the social space is useful in capturing the multifaceted nature of neoliberal globalisation. Bourdieu himself was deeply interested in the processes of neoliberalism (Bourdieu, 1998). Methodologically, he came to investigate its effects in a large-scale project on "social suffering" of specific individuals. Bourdieu was interested in "the singularity of a particular life history" and "the almost infinitely subtle strategies that social agents deploy in the ordinary conduct of their lives." (Bourdieu and Wacquant, 1993 pp. 607,

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<sup>4</sup> This overview of Bourdieu's thinking is taken from several sources. (Bourdieu, 1991; Bourdieu and Wacquant, 1992; Bourdieu, 2002).

609). The narrative of an individual life can reveal social and political mechanics in general and of neoliberal politics in particular. If neoliberal globalisation is conceived of in terms of an actual historical process rather than in functionalist terms as a “system”, then contingency and agency become important factors (Panitch and Glindin, 2003; Tripp, 2001).

The economic historian Roger Owen therefore recommends biography as a method to address the different levels of analysis involved in studying globalisation and empire: politics, economics, and society, the relationship of domestic and international politics, as well as the relationship of imperialism and globalisation. He comes to this conclusion by reflecting on the biography of imperial administrator Lord Cromer in the 19<sup>th</sup> century, a period which throws up similar issues as “globalisation” in the late 20<sup>th</sup> and early 21<sup>st</sup> centuries (Owen, 2004): because of Cromer’s involvement in diplomacy, finance, administration, development, the military, and the “government of subject races”, the issue of how to handle the different levels of analysis “present themselves in a somewhat higgledy-piggledy fashion in the compass of an individual life.” (Owen, 2004 p. 9). Owen concludes: “in a world where everything is connected to everything else, where do you start and where do you stop? The answer, in this case is that the study of a life is as good a place to jump in as anywhere else.” (Owen, 2004 p. 9). Just as Cromer was involved in many different spheres in late 19<sup>th</sup> century imperialism, so Hariri was involved in multiple spheres in late 20<sup>th</sup> and early 21<sup>st</sup> century neoliberal globalisation – from diplomacy, to finance, to sectarian politics. The narrative of the individual life does not allow for parsimony or separating dependent and independent variables but it provides a rich narrative, which can handle multiple levels of analysis. Other authors have similarly focused on individuals to uncover the often surprising routes that neoliberalism travels (Larner, 2009). Biography can be used to trace neoliberal ideas and practices and reveal dynamics which are hidden when the object of analysis is the state, the transnational capitalist class (Sklair, 2000), or an agency-less global capitalist system.

## **1.2. Neoliberal politics in Lebanon**

Rafiq Hariri's biography will be used to answer specific questions about neoliberal politics in Lebanon, which help shed light on wider questions of neoliberalism. Firstly, why did Lebanon fail to achieve sustained economic growth and social development after 1990? The answer helps to address the general question whether neoliberalism leads to sustained economic growth and social development. Secondly, did the United States use neoliberalism to project their power into Lebanon? This is linked to the general question whether neoliberalism is an instrument of or a constraint to the global power of the United States. Finally, does neoliberalism help or hinder the reproduction of sectarianism? This is part of the wider question whether neoliberalism strengthens particularist or universal identities. These questions will now be discussed in turn and the theory and methodology of the study will be clarified further. To set the scene, Hariri's rise from a marginal social position to high political office will be traced.

### **1.2.1. What explains Rafiq Hariri's rise from political outsider to prime minister?**

Prior to the Lebanese civil war in 1975, Lebanon had a particular role in the regional and the world economy, namely as a commercial and financial intermediary between Arab East and Western financial markets. This was due to its *laissez-faire* economy, marked by an open capital account and a floating exchange rate, and the international networks which Lebanon's commercial financial bourgeoisie were embedded in. While Sunni Muslim merchants tended to dominate trade with the Arab hinterland, their Christian counterparts dominated trade with Europe (Johnson, 1986 pp. 25-26). The Lebanese state was built on confessional compromise between representatives of Maronite and Sunni bourgeois families and became a vehicle for this cross-confessional bourgeoisie to appropriate rent from the country's commercial and

financial intermediation. Lebanon's pre-war politics was dominated by an elite of confessional leaders – the *zu'ama* (singular: *za'im*) – who were closely networked with the commercial financial bourgeoisie and the country's landowning families (Traboulsi, 2007 p. 115; Dekmejian, 1975 pp. 22-23). Lebanon lost its role as commercial and financial intermediary with the onset of civil war in 1975. Meanwhile, several Lebanese émigrés benefited from the oil boom in the Gulf by accumulating great wealth as construction contractors. Several members of this “new contractor bourgeoisie” came to invest in Lebanon, became involved in civil war diplomacy, and sought political office in the post-war era after 1990. Rafiq Hariri was the most politically successful among this group. His rise to the post of prime minister was intricately linked to the shift of Lebanon's role in the global economy and the rise of a new contractor bourgeoisie.

In chapter 2, Lebanon's shifting role in the capitalist world economy is documented using balance of payments data and exchange rates. A second step is to document how Lebanon's shifting role in the world economy changed the country's class structure. Marxists define class as an objective relationship to the means of production: “classes are defined by reference to relations of production. Relations of production involve positions of possession or non-possession of the means of production. Classes consist of those who occupy these positions.” (Hindess, 1987 p. 16). A second aspect of the Marxist perspective is that class conflict is inevitable and that classes are “social forces” who struggle against each other (Hindess, 1987 p. 16; Miliband, 2004 pp. 16-17). It is relatively easy to identify members of particular classes. Merchants and financiers appropriated rent from financial intermediation and the importation of consumer goods to Middle Eastern markets. They can be regarded as pre-war Lebanon's comprador bourgeoisie, transferring surplus from the Middle Eastern periphery to the core of the world economy. Large landowners benefited from the introduction of big capitalist farms in 'Akkar, the Biqa' and southern Lebanon (Nasr, 1978). The rural crisis that resulted from agricultural restructuring led to migration to the cities, especially Beirut but also Tripoli. Due to the relatively subdued pace of industrialisation, the share of wage labour remained relatively low. The migrants were absorbed into Lebanon's “competitive service capitalism”: some obtained relatively

secure clerical positions while the vast majority remained in insecure employment or self-employment, for instance as taxi drivers, street peddlers, or concierges (Johnson, 1986 p. 114). Prior to the civil war, the 1966 Intrabank crash resulted in a challenge to Lebanon's financiers, as international financial institutions were edging out local banks as intermediaries between Arab East and Western financial markets and were appropriating the rents generated from this mediation (Henry Moore, 1987 p. 209; Nasr, 1978 p. 4). This situation was dramatically reversed when civil war broke out: international banks fled, financial intermediation between Arab East and the West declined, and the banking system came to rely on militia financing or trade financing controlled by militias.<sup>5</sup> Businessmen linked to the militias appropriated the resulting rents and still maintained close links to global finance and trade, both licit and illicit (Hourani, 2010). Meanwhile, Lebanese emigration had produced new types of bourgeois linked to rent-creation mechanisms external to the Lebanese economy. Many Lebanese were linked into trading networks in West Africa. More interesting for our purposes are those Lebanese who accumulated great wealth as contractors in the Gulf – including Hariri. From the late 1970s onwards, this new contractor bourgeoisie started investing in Lebanon and sought political influence. Lebanon's pre-war commercial financial bourgeoisie tended to internationalise, moving operations abroad.

While it is relatively easy to identify classes objectively in relations to the means of production, this does not tell us how they act as social forces and how they are politically represented. It is here taken as evident that members of social classes would follow their economic self-interest. However, what is less clear is how they pursue their collective self-interest. While a "structuralist" approach would limit its analysis to the mapping of class positions as the sole determinants of politics, the approach taken here is more "sociological", focusing on elites:<sup>6</sup> how the elites that belong to the capitalist class push for their interests (Scott, 1990 p. xiii; Useem, 1984) and how state elites relate to capitalists (Mills, 1959; Miliband, 1973). In other words, the question is how classes organise and how they are politically represented in pursuit of their

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<sup>5</sup> *An-Nahar Arab Report and Memo (ANARAM)*, 4<sup>th</sup> June 1984, p. 4.

<sup>6</sup> Hindess (1987 pp. 28-33) distinguishes a structuralist and a sociological approach in his discussion of the debate between Poulantzas and Miliband.

interest. Furthermore, elite is a more open category than class. It allows for a richer account of individuals and groups beyond their economic position and including such identity categories as sect. Elites can be defined as “decision-makers” (Parry, 1969 p. 30) or as those with a high degree of social, symbolic, economic, cultural capital, as Bourdieu does (Hartmann, 2007 pp. 46-48). The two definitions are not mutually exclusive: decision-makers are likely to also possess great “capital”. They are different ways of thinking about elites and they are both important for this study. Hariri is interesting both as a “decision-maker” who pushed for neoliberal economic policies and as an actor endowed with specific forms of capital – possessing economic capital in particular abundance. The latter definition of elites allows us to locate Hariri in social space, the former allows us to analyse the ways in which he shaped social space, in particular the economic field but also the field of political culture. While the classic elite theorists such as Pareto or Mosca ignored class and were overly concerned with mechanistic models of the “circulation” of elites (Parry, 1969 p. 27), sociologists such as Miliband, Scott, and Useem have shown, elites can be used to study class dynamics (Miliband, 1973; Scott, 1990; Useem, 1984). Vice versa, class identity is crucial to understanding elite dynamics. Another shortcoming of classic elite theory has been the focus on national elites rather than transnational connections.

There are several ways of identifying elites. One is to divide them according to function – political elites, business elites, legal elites etc – by looking at actors’ positions in a very formalistic sense as political office holders, businesspeople, lawyers.<sup>7</sup> An alternative is to identify types of elites which arose at different stages of a specifically Lebanese history. This is what El-Husseini does, using a “reputational method” to identify different types of post-war elites (el-Husseini, 2004). In 1950s Lebanon, Traboulsi found that a “consortium” of about 30 families held monopolistic control over the main axes of the Lebanese economy, appropriating rent from financial intermediation and international trade (Traboulsi, 2007 p. 115). These bourgeois families were closely networked or even congruent with pre-war Lebanon’s politicians, the *zu’ama* (singular: *za’im*) who were Lebanon’s confessional leaders, the cabinet ministers and parliamentarians of the pre-war republic (Dekmejian, 1975 pp. 22-23).

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<sup>7</sup> Dekmejian (1975) uses this method in his study of Lebanese elites.

The zu'ama preserved the laissez faire economy and used some of the rents appropriated by the pre-war bourgeois families to finance the clientelist control of subordinate classes, split along confessional lines (Johnson, 1986). This mapping of elite networks and their specific forms of sociability and networks goes beyond a pure class analysis. Such care for specific local elite categories tends to be absent in studies by dependency theorists who focus more on the similarities of class structures across peripheral countries, especially the role of a "comprador bourgeoisie" that helps pump surplus to the core of the world economy.<sup>8</sup> This category is useful and valid but in order to understand the functioning of Lebanon's compradors it is vital to look at the structuring of these economic elites and the way they are networked to the state elite.

Relations between the bourgeois families and the state-elite became more complicated after the brief 1958 civil war, when President Fu'ad Shihab sought to build up a more developmentalist state. He recruited a cadre of technocrats who developed and implemented policies that undermined the economic and political power of the pre-war bourgeois families. Especially the central bank became an institutional instrument for these Shihabist technocrats, liberalising the banking system in such a way as to attract international banks and thus reduce the power of local financiers (Nasr, 1978 p. 4). Zu'ama clientelism was undermined: Firstly, urbanisation undermined the clientelist control exerted by rural zu'ama. Secondly, leftist, nationalist, and sectarian popular movements challenged the zu'ama. Although many of them expressed class-based opposition to the prevailing political and economic system, many movements slipped into sectarian discourses and practices. This was almost inevitable in a confessional state, where Maronites in subaltern classes were mobilised against their Muslim counterparts – the latter attacking "Maronite privilege", the former defending it. During the civil war, this sectarian pattern was intensified. Militia leaders rose as a new elite, ruling through a mixture of sectarian mobilisation, violence, and clientelism derived from their control over much of the civil war economy (Corm, 1994). This gave rise to a group of businesspeople closely associated with the militias. Meanwhile, the new contractor bourgeoisie took shape. In the 1980s, several Lebanese contractors who had accumulated wealth in the Gulf

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<sup>8</sup> For an insightful dependency analysis of pre-war Lebanon see Nasr, 1978.

started buying up Lebanese banks. Rafiq Hariri, a member of this class, later took political office and pushed through neoliberal economic reforms. The different types of elites that historically evolved in Lebanon are the main actors in the political struggle over neoliberal rent-creation mechanisms in post-war Lebanon. The types of elites that have been identified so far are the following: pre-war bourgeois families, zu'ama, Shihabist technocrats, militia leaders and the businessmen allied to them, and the new contractors. In the post-war era, Hariri's neoliberal technocrats, and the military and security establishment also gained great political prominence as decision-makers or holders of significant "capital". Informed Lebanese commentators would use some of these categories and they would certainly understand what they mean. These types of elites are not identified quantitatively but different actors are ascribed to these groups throughout the narrative.

Authors such as Sklair and Robinson argue that the globalisation of industrial production and marketing has led to the rise of a transnational capitalist class, which, in turn, pushes the process of neoliberal globalisation (Cox, 1996 p. 111; Robinson, 2004; Sklair, 2000 pp. 5-6). According to these authors, the nation-state and its politics are largely irrelevant for the course of neoliberal globalisation, just like crude versions of world systems theory or dependency theory assumed that the peripheral state was irrelevant except as an institution facilitating the transfer of surplus to the core of the world economy. The reach of Hariri's businesses was indeed "transnational": He bought the French construction company Oger in 1979. It was later incorporated in Saudi Arabia and Lebanon. However, the concept of a transnational capitalist class which is disembodied from its local context and which makes the nation state irrelevant is questionable in general and is certainly not applicable in the case of Rafiq Hariri in particular.<sup>9</sup>

One conceptual problem with Sklair's version of the transnational capitalist class is that he includes not only the executives of transnational companies but also globalising

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<sup>9</sup> For a critique of the conceptual and empirical basis of the "transnational capitalist class" in general, see Buris' (2002, p. ) review of Sklair's book.

bureaucrats and politicians, globalising professionals, and merchants and media (Sklair, 2000 p. 17). This very broad definition goes far beyond the accepted Marxist definition of class as a group united by the same relationship with the means of production. Sklair's broad definition is tautological because it includes anyone who pushes for neoliberal globalisation and then asserts that this "class" is the driving force of globalisation. Two steps are necessary to arrive at a more nuanced perspective. Firstly, to unpack the relationship of the owners and executives of transnational companies with the other groups Sklair includes in his definition. "The task is to problematise the mechanisms of capitalist influence over nonpropertied strata and over the state and analyse how coalitions are constructed and how capitalist hegemony is achieved." (Robinson, 2004 p. 36).

A useful distinction is between the capitalists – local or transnational – who drive globalisation, and "globalising elites" defined as "the political leaders and organic intellectuals associated with the internationally oriented fractions of capital (and some elements of privileged organised labour) and linked to the dominant public and private institutions of an embryonic global political and civil society", which "develop strategy and make policy recommendations to extend globalisation as a political and historical project." (Gill, 2003 p. 154). While Hariri was a member of the capitalist class, the technocrats he took from his construction companies, banks, and the IMF and put in charge of ministries and government agencies were "globalising elites", as defined by Gill. It is useful to keep these categories analytically distinct because a tension arises in their relationship: while transnational capitalists pursue neoliberalism as a political project – seeking to create rent and appropriate surplus – the globalising elites pursue neoliberalism primarily as a utopian economic project. While Hariri's economic power and diplomatic support from Saudi Arabia put him in a position to push for neoliberal economic policies, these policies were developed and implemented by the Hariri technocrats, not the businessman himself.

Adopting a narrow definition of the capitalist class is also an important step in identifying its agency as a "social force". The capitalist class works in conjunction with

globalising elites to develop and implement neoliberal economic policies. There are other connections that need to be investigated, however. Authors such as Sklair and Robinson argue that the transnational capitalist class makes the state and local politics irrelevant. However, “actually existing” neoliberalism is highly uneven across the globe. Different states adopt different economic policies and local politics and political culture shape the process. Local actors are by no means irrelevant. The comparison between the transnational capitalist class and the dependency theory concept of the “comprador bourgeoisie” is instructive. Dependency theory understood compradors primarily – or even exclusively – in terms of their role in pumping capital from periphery to core. As discussed above, it is impossible to understand the politics of Lebanon’s “compradors” without also taking into account their position in Lebanese society and politics: The “consortium” of families that controlled Lebanon’s finance and trading houses and was closely networked to the zu’ama. Similarly, Sklair and Robinson understand the transnational capitalist class only in the global context. However, what is required is an understanding not only of the global sociology of the a supposed “transnational capitalist class” but also the embeddedness of capitalists into a specific local and domestic politics. How do they become social forces that shape domestic politics? Hariri was a member of the capitalist class but in the Lebanese context he was also a specimen of a particular type of elite – the “new contractor bourgeoisie” who had made their money in the Gulf and sought political and economic power in Lebanon from the late 1970s onwards. Hariri was the most successful among them and pushed a neoliberal political and economic project in the post-war era. Hariri and his technocrats faced opposition to their neoliberal project from specifically Lebanese rival elites such as former militia leaders and Shihabist technocrats, while confessional power-sharing and Syrian overlordship structured competition between these types of elites. In short, Hariri’s membership of the capitalist class is an important starting point for analysing neoliberal politics in post-civil war Lebanon but the alliance with his technocrats – who acted as “globalising elites” – and the patterns of cooperation and conflict with rival elites are also crucial elements of analysis.

One part of the answer to the question how the political outsider Rafiq Hariri became a political leader in Lebanon is the rise of the new contractor bourgeoisie. However,

Hariri was not the only member of this class who invested in Lebanon, he was merely the most successful one politically.<sup>10</sup> This was due to the strong diplomatic and financial support he received from the Saudi monarch. Two things must therefore be further explored: Firstly, the relationship between Hariri and the Saudi monarchy and secondly, the rising influence of Saudi Arabia in Lebanon. The latter will be discussed in more detail in section 1.2.4 of this chapter.

### **1.2.2. Why did Lebanon fail to achieve sustained economic growth and social development after 1990?**

Neoliberalism can be framed as a question about the “right policies”. The question why Lebanon failed to achieve sustained economic growth and social development after 1990 would then alternatively be answered by saying that there was “too much” or “too little” neoliberalism, as embodied in the ten Washington Consensus policies, which became the cornerstone of neoliberal policy advice (Williamson, 2004). As argued above, neoliberalism is more than just a debate about the “correct” economic policies, it is also a political project to appropriate the rent created by neoliberal restructuring, especially through financialisation. The questions that need to be answered then are the following: How do neoliberal rent-creation mechanisms work? Who appropriates rent? How is rent appropriated, i.e. what institutions are involved in rent-creation and who controls them? A few terms need to be clarified to place this methodology into the context of social theory: profit, surplus, and rent. The definitions of these terms go to the heart of the meaning of political economy. Neo-classical economic theory has a very limited conception of rents, which are simply defined as excessive profits earned from government intervention in the market.<sup>11</sup> Further costs arise because firms invest in rent-seeking rather than production (Krueger, 1974; Mueller, 1989). Yet this conception of rent as excessive profit is based on the ideal of the perfectly functioning market. Since this ideal is never achieved, rents are ubiquitous in actually existing markets, especially during the process of development

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<sup>10</sup> Najib Miqati, another new contractor, only became prime minister after Hariri’s death in 2005.

<sup>11</sup> Rent did play a crucial role in the theories of classical economists such as David Ricardo who used it to describe the differences in the agricultural productivity of land (Ricardo, 2001 pp. 39-50).

when property rights are being reassigned to enable capitalist accumulation (Khan, 2000). Furthermore, if markets are regarded as social relations rather than just neutral reflections of the impersonal forces of demand and supply, rents assume an increasingly important role in distributive conflicts (Swedberg, 2003 p. 108).

The most interesting aspect of Marxist political analysis is the ways in which capitalists appropriate surplus and rent. One of the most dynamic aspects of neoliberal capitalism has been the creation of “fictitious money” delinked from industrial production:

“Thus, when we examine the growth of so-called ‘global capital markets’, we will find that much of their activity is not about the supply of capital for productive activity. It is about trading in royalties on future production in different parts of the world or about businesses engaging in various kinds of insurance against risks. And the trend in the organisation of the flows of finance has been increasingly one which privileges the interests of rentiers and speculators over the functional requirements of productive investment.” (Gowan, 1999 p. 12).

Financialisation is a symptom of a wider crisis of capitalist accumulation, where “the rate of investment tends to exceed the growth of final demand”.<sup>12</sup> The rents of financialisation are created and appropriated not by the owners of the means of producing money: central bankers, the financial sector, finance ministries, and international financial institutions such as the IMF. It is exactly this complex of institutions which Hariri managed to control in Lebanon. This is why the terms rent, rent-seeking, rent-creation, and rent-appropriation are central to the analysis of Hariri’s neoliberal project (Khan, 2000 p. 24).

How did rent creation mechanisms in post-civil war Lebanon work? Some conformed to neoliberal logic, others defied neoliberal logic. Firstly, Rafiq Hariri pushed through the project of reconstructing Beirut’s city centre. By transferring property rights from the pre-war owners to a single private development company called Solidere, private investors from the new contractor bourgeoisie or the Gulf were able to appropriate land rent. Secondly, government over-borrowing beyond what was required to finance the budget deficit created artificial demand for Lebanese pounds, thus stabilising the

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<sup>12</sup> Soederbergh (2004, p. 12) quoting Magdoff.

currency. However, it also inflated interest rates, led to skyrocketing public debt, and created rents for the government's creditors: Lebanese commercial banks and their depositors. Thirdly, privatisation was an aspiration for Hariri and his technocrats but the main targets – telecommunications, Middle East Airlines, electricity and water – remained under various forms of state control. Private investors hoped to reap monopoly rents from some of these sectors. Meanwhile, Hariri's rivals were keen to maintain such state control in order to provide jobs as patronage or to deny Hariri control over particular economic sectors. Reconstruction, government debt management, and privatisation were justified using the language of neoliberalism: making Lebanon "competitive", achieving macro-economic stabilisation, and privatising inefficient state enterprises. In contrast, welfare spending on "service ministries" such as health, education, or specialised agencies such as the Council of the South or the Ministry of the Displaced ran counter to neoliberal concerns with cutting back the welfare state and emphasising individual responsibility. However, the post-civil war years saw continuously high expenditure on these ministries which often functioned as patronage resources for former militia leaders. The power of these rivals to Hariri allowed them to defy his neoliberal agenda and his efforts to cut welfare spending. Finally, market regulation or the lack thereof benefited a variety of elites. For instance, Lebanon's pre-war bourgeois families continued to benefit from licenses for "exclusive representation" of Western companies in Lebanon. This created a form of monopoly rent. Hariri sought to abolish these privileges but failed.

Rent-seeking is analytically distinct from corruption. Definitions of corruption tend to centre on illegality (Khan and Jomo, 2000 p. 8). Corruption is commonly defined as "the abuse of public office for private gain" (World Bank, 1997 p. 8; Leenders, 2003 p. 305). In his unpublished PhD thesis, Leenders (2004b pp. 264-269) argues that the central bank of Lebanon was not corrupt because it did nothing illegal. Moreover, it was able to provide a "public good", namely currency stability, because it was more insulated from social pressures than other bureaucratic institutions in Lebanon, which did not approximate the Weberian bureaucratic ideal. Yet as we have seen, the exchange rate was stabilised by government over-borrowing. Currency stability was thus achieved at the cost of enormous government debt, while wealth was transferred

to depositors and bank owners – including Hariri. Nor is the central bank as insulated from society as Leenders claims: the governor put in place in 1993 used to manage Rafiq Hariri’s portfolio at Merrill Lynch and is widely considered a Hariri protégé.<sup>13</sup> So surely, this process of rent-creation benefited Rafiq Hariri privately. Whether it was legal or not is of secondary importance if we are trying to understand the political economy of post-war Lebanon. Hariri’s economic policies have also been analysed in terms of “corruption”. Neal and Tansey regard Hariri’s leadership as “corrupt” but “effective” because he rebuilt the city centre and opened Lebanon to foreign capital (Neal and Tansey, 2010). Again, it is more fruitful to closely analyse the politics of rent-creation and rent-appropriation than hailing the “effectiveness” of Hariri’s policies – not least because, as argued in chapters 3 and 4, their effects were a lot more detrimental than Neal and Tansey think.

After establishing how rent creation mechanisms worked, it is time to consider who appropriated rent. In Marxist theory, classes appropriate surplus. As explained in the previous section of this chapter, it is more useful to focus on elites rather than classes in order to see how classes organise and how neoliberalisation occurs in a social space which is not determined by the economic “in the last instance”. Hariri and other new contractors tended to be the main beneficiaries of rent-creation mechanisms that followed a neoliberal logic: the reconstruction of Beirut’s city centre, government over-borrowing, and potentially from privatisation. In contrast, former militia leaders sought to control service ministries and state-owned enterprises as patronage instruments. The different types of elites followed different economic logics – opening up new investment opportunities or seeking resources for patronage. A useful category to complement the analysis of elites is the network. Hariri built up a network of clients around himself, which included the technocrats he put in charge of government ministries and agencies concerned with reconstruction and government finance. The Hariri network was able to utilise the different forms of economic and cultural “capital” of the different types of elites drawn into it: Hariri brought the financial capital to the table, his technocrats the cultural capital to realise their neoliberal project. From about 1996 onwards Hariri also drew experts in sectarian

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<sup>13</sup> *Middle East Economic Digest (MEED)*, 4<sup>th</sup> June 1993, p. 27.

clientelism into his network to build up grassroots support among Sunni Muslim voters. Similarly, Hariri's rivals had access to elites with various types of capital through their varied networks. Networks have become an increasingly popular category for the analysis of Middle Eastern political economy (Heydemann, 2004). However, the use of networks has also been criticised for being too fluid a concept compared to class or elite, the difficulty of mapping networks, of determining resource flows within them, and establishing who initiated policies (Kienle, 2004 p. 282). The concept of the network is here used to complement rather than replace elites or classes. The Hariri network is described qualitatively and it is made up of allies to Hariri.<sup>14</sup> In interviews with the author, members or former members of the network often pointed out the origin of policy initiatives. Resource flows within the network can indeed not necessarily be proven – although there are many rumours of Hariri keeping his technocrats on his payroll – but that's not strictly necessary. What is more important is that the Hariri network (or rival ones) acted coherently in pursuit of a particular political or economic project. The contention here is that Hariri's project was a neoliberal one, with all the contradictions that come with this designation. By looking at his network, the types of elites he drew in at different times, and the types of capital these elites possessed and brought to the political field, tell us something about the nature of neoliberal politics in Lebanon. Rafiq Hariri's network is therefore an artefact of neoliberal mobilisation in Lebanon.

After establishing how rent-creation works and who appropriates rent, it is important to bring the two together: did those who appropriated the rent actually create it? It is not enough to show who gains in order to establish agency in the creation of rent. It is also necessary to show how groups – for instance the Hariri network – gained access to centres of decision-making (Haggard, 1990 p. 34). Hariri used the network of technocrats allied to him to control government institutions that put in place and managed specific rent-creation mechanisms: the finance ministry and the central bank were in charge of government over-borrowing, the Council for Development and Reconstruction (CDR) oversaw reconstruction spending and the project for central

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<sup>14</sup> This qualitative mapping stands in contrast to the quantitative mapping of formal network analysis, for instance studies that track "interlocking directorships" described in (Scott, 1990b).

Beirut. These rent-creation mechanisms followed a neoliberal logic. Government over-borrowing was designed to stabilise the currency, while reconstruction was supposed to give Lebanon the infrastructure to make it “competitive” in the regional and global economy. Common forms of neoliberal restructuring of the economy and the state were being reproduced in Lebanon. Hariri and his technocrats were in charge of the the agencies concerned with economics and finance. These latter agencies included the “service ministries” such as education, social affairs, or health. They tended to be controlled by former militia leaders or close allies of Syria who used them as patronage instruments. This explains the specific patterns of Lebanon’s neoliberalisation: the low inflation and currency stability, the high debt burden, and the continued welfare expenditure. Other rent-creation mechanisms – the patchy privatisation, market regulation – can also be analysed this way. Many analyses reduce the competition between Hariri and rival elites to differences over Syria’s role in Lebanon or to sectarian divisions. However, this competition was also a struggle over the neoliberal restructuring of the Lebanese state.

The focus of this study is very much on elite politics but the popular resistance that neoliberalism engenders does require some analysis too, not least because Lebanon’s political elites managed to co-opt the protest movements for their purposes. Since neoliberalism is a global economic, political, cultural and imperial project, resistance to it can take a variety of forms. It can be local or part of global efforts, it can be class based or identity based, and it can engender resistance to the projects of global or regional superpowers. What kind of politics of resistance did neoliberalism produce in Lebanon? And how effective was this resistance? The answer to this question fits into the wider debate about the way social movements resist neoliberal globalisation. Authors on the left tend to write about resistance to neoliberal globalisation in highly normative terms. Evans argues it needs to be global rather than just local (Evans, 2008). Hardt and Negri find that resistance to the “biopolitical machine” of “Empire” can involve both identity-based and class-based forms and is likely to coagulate into a coherent “multitude” that will eventually challenge “Empire” (Hardt and Negri, 2000). Other authors are more cautious and find that not all resistance is necessarily progressive. Especially identity-based resistance can slip into racism, xenophobia, or

authoritarian rule rather than opening up democratic space (Evans, 2008 pp. 285-286; Harvey, 2003 pp. 166-178). Islamism, for instance, is often taken as an ineffective and reactionary form of resisting neoliberalism and empire (Amin, 2007).

How was neoliberalism resisted in Lebanon? The neoliberal rent-creation mechanisms put in place by Hariri and his technocrats created many losers. Government over-borrowing led to “crowding out” and slow job creation. Unemployment and poverty remained high, especially because the productive sectors agriculture and industry attracted too little investment. Social indicators improved only slowly. Especially in areas such as health and education inequality remains extremely high, leaving large parts of the Lebanese population reliant on elite patronage for access to services. In chapter 4 three instances of resistance to rent-creation mechanisms put in place by Hariri and his technocrats will be analysed by looking at the interests, the discourses, and the effectiveness of the protests. The first instance involves the various forms of opposition to Solidere, the private development company in charge of reconstructing Beirut’s city centre. Opposition to the Solidere project came from several groups. Their interests, their discursive strategies and the extent of cooperation and competition among them shows how class and confessional identity interacted in opposition to Hariri’s reconstruction plan in the city centre. A second instance of resistance consisted of protests by the trade unions in the mid-1990s. Despite their inherent weakness in a service-based economy, the trade unions appeared as the best-organised opposition to Hariri’s economic policies between 1993 and 1997. Thirdly, the year 1997 saw social protests by agriculturalists in Ba’lbak-Hirmil, dubbed the “revolution of the hungry”, led by the Shi’i cleric Shaykh Subhi al-Tufayli.

In summary, then: the question why Lebanon failed to achieve sustained economic growth and social development in the post-civil war era is explained with reference to the specific economic and political patterns of neoliberalism in Lebanon. The inquiry into how rent-creation mechanisms worked, who benefited from them, and how rent was created shows that the answer to the question lies in the patterns of conflict and cooperation between different types of elites over the direction of the economy. While

Hariri and his technocrats put in place rent-creation mechanisms that followed a neoliberal logic, rival elites tried to secure a share of the pie and they strengthened forms of rent-creation which defied neoliberal logics. Popular opposition to Hariri's neoliberal policies were co-opted by his rivals.

### **1.2.3. Does neoliberalism help or hinder the reproduction of Lebanese sectarianism?**

Does neoliberal globalisation help or hinder the reproduction of sectarianism? Hariri's use of sectarian discourses and practices helps to illuminate this question. Hariri's supporters point to the fact that the businessman surrounded himself with advisers from all different sects and prized competence over confession. Yet from 1996 onwards Hariri embraced an increasingly sectarian image, abandoning claims to "national" leadership and styling himself as a specifically "Sunni" leader. Hariri's sectarianism was therefore a mix of sectarian particularism and universalism: he combined popular sectarian mobilisation with recruitment of technocratic allies according to broadly universal principles. Hariri's sectarianism allows for an exploration of the relationship between neoliberalism and particularist identity.

Several authors have identified sectarianism as the essence of Lebanese politics, the determinant of political behaviour "in the last instance". For Cobban, sectarianism is the essential rhyme and reason, that makes the "modern-sounding" Lebanese tick, while comparativists such as Lijphart have characterised Lebanon first and foremost as a "deeply divided society" (Cobban, 1985 p. 32; Lijphart, 1979). Other authors have argued that sectarianism is an instrument of the ruling elite, a form of "false consciousness" to undermine class solidarity, or an imposition by Western imperialists (Ofeish, 1999). Seeing sectarianism as either an unchanging essence or as a form of false consciousness only captures part of the phenomenon: the former misses the constructed nature of sectarian identity, the latter cannot explain why the Lebanese would go along with the ruse put on by their elites. In contrast, sectarianism is here

seen as constructed, stable and situational. The 19<sup>th</sup> century witnessed the integration of Mount Lebanon and Beirut into the capitalist world economy via silk production – controlled by Christian producers and merchants. This differential integration into the capitalist world economy, the decline of the Ottoman Empire, and a colonial encounter with European states acting as “protectors” of the Christians in Mount Lebanon, resulted in the transformation of the Ottoman sectarian hierarchy into the political sectarianism of the modern Lebanese state (Makdisi, 2000; Salibi, 1988). The rise of political sectarianism in the 19<sup>th</sup> century resulted in bouts of communal violence which were to serve as a reservoir of “memories” with which sectarian leaders could mobilise their following in the 20<sup>th</sup> century. The course of state formation thus played a decisive role in the emergence of political sectarianism. Asserting that the confessional group is one of the oft-cited “imagined communities” or that it is “constructed” does not mean that it is in any way “imaginary” or fabricated (Anderson, 2006 p. 6; Hacking, 1999). It is a very real and powerful social category that creates its own distinctions and hierarchies, which in turn remain stable over long periods of time. Sectarianism is not just constructed, it is also “situational”. Actors move in a wide social universe divided not only by sectarianism but a wide variety of distinctions in class, region, quarter, social status etc. While recourse to shared sectarian identity may be appropriate in some contexts, this is not true all the time. “Being sectarian” cannot be determined in a binary yes-or-no manner but depends on what an actor seeks to achieve and in what context. Examining the sectarian logic of Hariri’s networks and his philanthropy allows us to examine what it means to “be sectarian”. When and how did he accentuate sectarian identity? When did he choose to appeal to alternative categories such as Lebanese nationalism or universal principles?

The way in which a particular behaviour is “sectarian” is a matter of careful interpretation. The assertion that Hariri styled himself as a Sunni leader after 1996 does not mean that there was no sectarian mobilisation at all prior to that date. Similarly, the assertion that the Hariri technocrats were recruited across all confessional groups requires some minor qualification. However, the two assertions are a useful starting point to explore Hariri’s sectarianism. The contrast in Hariri’s philanthropic practices from 1983 to 1996 and from 1996 to 2005, and their changing

political logic, illustrates Hariri's turn from a "national" leader to a specifically Sunni leader. From 1983 to 1996 the Hariri Foundation ran a student loan programme that benefited 32,000 students. The specific confessional make up of the beneficiaries followed a political logic. The foundation itself claimed repeatedly that it was open to Lebanese from all sects and regions and that no "wasta" (intercession) was needed to obtain support.<sup>15</sup> The foundation sought to project an image of rational planning rather than sectarian favouritism. However, interviews, press reports, and the memoirs of the foundation's general director suggest that it did recruit primarily among Hariri's Sunni community.<sup>16</sup> Students were recruited through Sunni social and religious associations in predominantly Sunni peripheral regions of Lebanon. A survey of Hariri Foundation recipients in 1990-91 found that non-Sunni students were recruited primarily through militia leaders and politicians from their community (Khashan, 1992). After establishing the confessional identity of the student loan recipients it is possible to unpack the political logic of Hariri's philanthropy: Hariri sought to promote his chances of becoming prime minister, the highest position reserved for a Sunni Muslim in the Lebanese state, and he also used the Hariri Foundation to provide favours to non-Sunni militia leaders and politicians, either in response to blackmail by militias or in order to support his civil war diplomacy. What is important for the overall argument, however, are the limits to sectarian mobilisation through the student loan programme. The Hariri Foundation relied on existing Sunni social and religious associations for recruitment and claimed non-sectarian practices. It did not try to build up a coherent grass roots following or a political party aimed at winning elections – if only because there were no elections. An alumni association for Hariri Foundation loan recipients was only founded in 1994.

In the 1980s, Rafiq Hariri was not a sectarian leader and he remained a predominantly "national" figure in the early 1990s. He had been instrumental in putting together the Ta'if peace accord of 1989 and had styled himself as a "clean" political outsider, in

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<sup>15</sup> For instance, in an interview with Marwan Iskandar, Hariri said he did not want to favour one group over the other. *Al Safir*, 26<sup>th</sup> June 1986, p. 5. Rafiq Hariri to *Al Safir*, 28<sup>th</sup> November 1984, p. 7. Fadl Shalaq to *Al Safir*, 18<sup>th</sup> January 1985, p. 7.

<sup>16</sup> *Al Safir* 3<sup>rd</sup> June 1985, p. 7. *Al Safir*, 27<sup>th</sup> July 1985, p. 5, *Al Safir*, 27<sup>th</sup> December 1984, p. 7. *Al Safir*, 27<sup>th</sup> February 1985, p. 7. See also Shalaq (2006 pp. 158, 170-171).

contrast to militia leaders tainted by sectarian violence. However, when Hariri became prime minister in 1992, the post came with expectations among the Sunni community that Hariri would “defend their interests”. After all, he was the prime Sunni representative in the state. The pre-war *zu’ama* still had some following, remnants of the popular organisations among Sunnis made demands from Hariri to provide services, while new Sunni Islamic groups challenged the Sunni leadership. Prime minister Hariri was still not primarily a “Sunni leader”. This changed from 1996 onwards. Hariri experienced increasing opposition to his economic programme from among rival political elites and from the popular level. Hizballah’s resistance to Israeli occupation resulted in continued Israeli attacks, which undermined Hariri’s reconstruction project. The 1998 election of Emile Lahud and the appointment of Salim al-Huss as prime minister undermined Hariri’s control of Solidere and the management of government debt. Hariri therefore sought electoral success to win back the post of prime minister. In the confessional state, electoral success is gained by providing services to the politician’s sectarian community. Hariri therefore embraced sectarian leadership. In 1996 he managed to push through his candidate for the position of mufti. From 1999 onwards, the Hariri Foundation started building health centres and schools in predominantly Sunni neighbourhoods. This was the sort of grass-roots clientelism that he had previously avoided. Hariri also embraced a more sectarian discourse, attacking Prime Minister al-Huss for his supposed inability to defend the interests of Beirut’s Sunni community.<sup>17</sup> Importantly, Hariri politically neutralised the Maqasid association, which was a patronage vehicle of Sunni-Beiruti Salam family. This episode is analysed in detail because it illustrates the way in which Hariri, as a member of the new contractor bourgeoisie, replaced the pre-war bourgeoisie economically and politically.

Hariri’s turn to sectarian populism contrasted with the cross-confessional recruitment of Hariri technocrats. The methodology used to unpack the sectarian dynamics of Hariri’s network-building is the one commonly used by authors such as Batatu or van Dam: the description of the sectarian make-up of an elite network is followed by a reading of the political logic of a particular sectarian constellation (Batatu, 1978; van

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<sup>17</sup> *MEI*, 28<sup>th</sup> July 2000, p. 23.

Dam, 1996). In the 1990s, Hariri installed finance specialists, engineers, or lawyers who had worked for his construction company Oger or for one of his banks in ministries and government agencies concerned with reconstruction and the economy. These technocrats tended to be recruited from all sects and Rafiq Hariri's network was more open than the networks of other politicians or former militia leaders. There was a limit, however, because Hariri's closest confidantes tended to be Sunni Muslims from peripheral regions of Lebanon – from outside of Beirut. The sectarian make-up of Hariri's network became more contradictory in the late 1990s. He recruited experts in clientelist and sectarian mobilisation who had previously been allied to Salam. At the same time, a younger crop of technocrats came to direct the second wave of neoliberalisation after 2000. They were even less sectarian than the first generation of technocrats in the 1990s.

Hariri's sectarianism followed the logic of neoliberal politics. Wallerstein found that contemporary capitalism has a tendency to appeal to particularist tendencies for popular mobilisation behind neoliberal projects – presenting ethnic, racial, or sectarian difference as “natural verities” that legitimise existing social hierarchies – while the recruitment of the “cadres” of capitalist management occurred according to universal values to get the “best and the brightest” to ensure the smooth running of modern capitalism (Wallerstein, 2007 p. 41).

#### **1.2.4. Did the United States use neoliberalism to project its power into Lebanon?**

Rafiq Hariri's rise to power has to be understood with reference to the rise of the new contractor bourgeoisie in Lebanon. However, Rafiq Hariri's rise was not just due to the abstract workings of capitalism but also strong diplomatic support from the Saudi monarchy. This support made Hariri the most politically successful among the “new contractors”. The Saudi connection is the starting point for looking at the way in which the United States projected its power into the Middle East and the role (or non-role) of neoliberalism in this process. Saudi Arabia is a major conduit for American influence in

the Middle East. The US-Saudi relationship is often reduced to “the deal”: the provision of security by the US in exchange for Saudi oil. However, the US have been deeply implicated in Saudi state-building since the first oil concession in 1932, for instance through the oil company ARAMCO (Vitalis, 2009). Bronson argues that US-Saudi relations are “thicker than oil”: In its Cold War struggle, the US relied on the conservative monarchy to confront communism and Arab nationalism in the Middle East (Bronson, 2005). This meant that relations were especially cordial when the Cold War confrontation was at its peak and the United States would use Saudi influence – especially the kingdom’s financial muscle – in pursuit of its goals. The “second Cold War” (Halliday, 1986) in the 1980s was such a phase of intensified superpower conflict. This increased US reliance on Saudi Arabia in Afghanistan, the Iran-Iraq War, but also in Lebanon. Towards the end of the 1980s the Cold War was winding down and Washington came to take a less confrontational stance against its opponents. The era from about 1988 to 2000 was marked by a focus on economic power by “institutionalising” neoliberal globalisation (Gill, 2003 p. 154) while clothing the use of American military power in the guise of multilateral peacekeeping or humanitarian intervention. In the Middle East, the United States pursued the Arab-Israeli peace process. Reliance on Saudi Arabia in American Middle East policy was somewhat reduced and relations between the two countries became more tense as the Islamic ideology propagated by the kingdom turned from Cold War asset into a liability. Finally, the breakdown of the peace process, the 11<sup>th</sup> of September attacks in 2001 and the “war on terror” complicated US-Saudi relations: while neoconservatives in Washington took aim at Islamism inspired by Saudi religious authorities and the royal family’s authoritarian rule, the Bush administration also relied on the kingdom for its ambitious strategy of remaking the Middle East. These three phases also provide a handle to assess the importance of neoliberalism in the projection of US power, as explained below.

The periodicisation into three phases is a useful tool for analysing the triangular relationship which determined Hariri’s political influence in Lebanon: between the United States, Syria, and Saudi Arabia. Simply stated: The influence of Saudi-ally Rafiq Hariri in Lebanon was curtailed when the US and Syria were in confrontation (roughly

1982-1988 and 2000-2005) and his room for manoeuvre was greatest when the two powers cooperated (roughly 1988-2000). During times of conflict with the American superpower, Syria sought to curtail Saudi power in Lebanon, which it then considered a strategic threat. During times of rapprochement, the Syrian regime allowed the representative of Saudi power in Lebanon – Rafiq Hariri – to build up his political and economic influence. This rendering of the triangular relationship is, of course, somewhat reductive, if only because the role of Israel is only taken into account indirectly. However, the periodicisation of the triangular US-Syrian-Saudi relationship is still a useful observation. Earlier on, three phases of US global strategy since the 1980s were identified: the “second Cold War” from about 1980 to the late 1980s saw an intensification of superpower conflict and neoliberal globalisation, the end of the Cold War meant that strategy shifted in favour of using economic means of asserting US power over military intervention in the 1990s, while the period since 2000 has seen a return to militarism in the “war on terror”. These changes in American global strategy explain patterns of conflict and cooperation between the US and Syria: Reagan’s Cold War escalation resulted in US intervention in Lebanon and confrontation with Syria, Clinton’s pursuit of the peace process saw a return to more cordial relations, while Bush’s design to remake the Middle East resulted in renewed antagonism.

The role of neoliberalism in US policy vis-à-vis Lebanon is revealed in one episode in particular, namely the way in which Lebanon avoided financial crisis in 2002. The wave of sovereign debt crises that swept developing countries since 1982 epitomised the use of neoliberalism to assert US power. A conglomeration of power referred to as the “Wall Street-IMF-treasury complex” (Wade, 2000 p. 109; Harvey, 2005 p. 92) managed to put the burden of debt repayment on developing country debtors rather than Wall Street creditors. At moments of sovereign debt crisis the inequality of power in the world economy is crystallised in the bail-out negotiations. Lebanon came close to financial collapse in 2002 but managed to avoid it through donor support from Saudi Arabia and France in particular. A bail-out by a lender other than the IMF is highly unusual. The explanation lies in a unique political and economic constellation. Firstly, Lebanon’s main creditors were not Wall Street institutions but Lebanon’s economic elites themselves. Particularly the new contractors had bought up Lebanese

government debt and were in fact mediating between Lebanese finance and global finance. The United States therefore did not have to protect the interests of American investors, nor was Lebanon in any way of significance for the global financial system. US calculations revolved around strategic interests, namely to force the Hariri government to take a tougher line against Hizballah. Hariri was unwilling to do so. Washington therefore made no efforts to change the mind of directors at the IMF who were unwilling to support Hariri's demand for a generous bail-out that would avoid devaluation of the currency. Hariri came to rely on his personal alliances with Saudi Arabia and with French President Jacques Chirac to obtain a bail-out led by those two countries. Lebanon had become dependent on an "implicit guarantee" (Schimmelpfennig and Gardner, 2008 p. 19) by Saudi Arabia to avoid financial crisis. The US did use neoliberalism to assert its goals in Lebanon but the outcome of Lebanon's financial crisis did not conform to the blueprint followed in other developing countries.

### **1.3. Methodology, sources, and outline of the thesis**

Neoliberalism is an intensified form of capitalism which produces its own kind of politics. Neoliberalism is here defined as an "assemblage" of economic, political, cultural, and "imperial" projects. Because these projects are contradictory, neoliberalism does not follow a single political, economic, cultural, or "imperial" logic. What is required is the study of "really existing neoliberalism", the reproduction of general discourses and practices in specific "fields". Lebanon is an interesting case study of neoliberal politics: while it does not conform to the usual narrative of "transition" from state-led development to market reforms, Rafiq Hariri and his technocrats did reproduce particular neoliberal practices and discourses on financialisation, urbanism, state restructuring, industrial relations, and identity politics. The biography of businessman-politician Rafiq Hariri is able to handle the different aspects of neoliberalism without having to conform to the strictures of the "scientific" methodology of political study.

The study of the political economy of post-war Lebanon revolves around the creation of rent and its appropriation by different types of elites: pre-war bourgeoisie, Shihabist technocrats, former militia leaders, new contractor bourgeoisie, Hariri technocrats, and military and intelligence establishment. These types of elites are identified using a reputational method by looking at their historical development. The class background of these elites – their relationship to the means of production – is important but is not the only determining factor of collective action because other aspects, such as sectarian identity, also shape political activity. An important aspect for the study of neoliberalism is the construction of networks among elites. For instance, while Hariri was a crucial actor in pushing neoliberal policies, the actual rent-creation mechanisms were developed and implemented by the technocrats he hired. Hariri and his technocrats faced opposition from rival elites, especially former militia leaders and the military and intelligence establishment, who followed different economic and political logics. Hariri and his technocrats pushed neoliberal rent-creation mechanisms: financialisation through government debt management, reconstruction, and attempted privatisations. Former militia leaders sought to maintain control of “service ministries” as patronage instruments. The crucial element for understanding different rent-creation mechanisms is the colonisation of different state institutions by rival elites. This process is analysed by looking at the types of elites and networks who controlled different ministries and government agencies. The division between Hariri and his rivals conforms roughly to the neoliberal restructuring of the state seen elsewhere: while Hariri and his technocrats sought to strengthen the “right hand” of the state concerned with economics and finance, the former militia leaders were more concerned about the state’s welfare function as embodied in the “service ministries”. The sources used for this analysis are socio-economic data published by the Lebanese government and international organisations, newspapers and the financial press, the secondary literature on Lebanon’s economy, and interviews with Hariri technocrats, academics, and economic analysts.

Rafiq Hariri transformed himself from a “national” leader in the 1980s and early 1990s to a specifically Sunni leader in the late 1990s. The changing nature of Hariri’s philanthropy illustrates this development. The student loan programme of the 1980s

benefited primarily but not exclusively Sunni Muslims, yet it did not systematically build up a sectarian clientele. In the early 1990s Hariri continued to neglect his own community and concentrated on reconstruction. Hariri only started building a clientele among Sunni Muslims in the late 1990 when his neoliberal rent-creation mechanisms were being threatened by rival elites. He established health centres and schools in predominantly Sunni neighbourhoods and politically neutralised the Maqasid association, the patronage vehicle of the Salam family. The development of Hariri's philanthropy is narrated by looking at the financing of the Hariri Foundation and the sectarian identity of its beneficiaries. The Hariri Foundation is contrasted with the Maqasid, whose place as the foremost Sunni Beirut philanthropic association it took. Sources used for the analysis of the Hariri Foundation and the Maqasid are publications by the two associations, interviews with employees and management, the published memoirs of Hariri Foundation general director Fadl Shalaq, secondary literature on Maqasid, and archived newspapers. Finally, the research on international politics and diplomacy relies primarily on memoirs, the extensive secondary literature, and interviews with Lebanese politicians.

The chapters follow a roughly chronological order. Chapter 2 addresses the question of what explains Rafiq Hariri's rise from political outsider to prime minister. Lebanon's shifting role in the capitalist world economy meant that the established pre-war bourgeoisie lost power relative to a new contractor bourgeoisie, to which Hariri belonged. Hariri was the politically most successful member of this class because he enjoyed strong backing from Saudi Arabia. The chapter looks at the shifts in Lebanon's political economy during the civil war, Hariri's relations with Saudi Arabia, his investment and political involvement in Lebanon in the 1980s, and the student loan programme of the 1980s. Chapter 3 looks at the reasons why Lebanon failed to achieve sustained economic growth by looking at the economic effect of four rent-creation mechanisms: reconstruction, government over-borrowing, using service ministries as patronage instruments, and the regulation of markets for consumer goods and services. Hariri and his technocrats were in charge of the first two mechanisms, which conformed to a neoliberal economic and political logic. Former militia leaders tended to be in charge of service ministries. Various elites benefited

from various forms of market regulation. The specific pattern of neoliberalisation of Lebanon's economy therefore needs to be understood both in economic and political terms, where the latter refers to the patterns of conflict and cooperation between different types of elites. The mixture of these policies stabilised the currency and led to some reconstruction of infrastructure but it also resulted in skyrocketing government debt, crowding out, an overemphasis on finance and real estate at the expense of agriculture and industry, inefficient delivery of public services, and high living costs. Chapter 4 is divided into two sections. Firstly, it looks at the reasons why Lebanon failed to achieve social development. The overemphasis on services and the neglect of agriculture and industry resulted in continuously high unemployment and continued poverty. Reconstruction benefited primarily the capital while peripheral areas remained neglected. The second section looks at the forms of popular resistance which these failings of Hariri's neoliberal policies engendered: protests against Solidere, trade union protests, and agricultural protests in the Biqa' valley. Chapter 5 looks at Hariri's philanthropy from 1996 onwards. Hariri increasingly styled himself as a specifically Sunni leader, a move epitomised by his rivalry with the Maqasid association. The businessman-politician resorted to sectarian populism in order to win elections. He did so because his neoliberal rent-creation mechanisms were coming under increasing pressure from rival elites, especially after Emile Lahud became president in 1998 and Hariri stepped down as prime minister. Chapter 6 looks at the return to political crisis after 2000. When Hariri came back as prime minister in that year, he had to negotiate the rising international and internal conflicts: The neoconservative design to remake the Middle East resulted in rising US-Syrian and Saudi-Syrian tension, while the Israeli withdrawal from Lebanon led to a revival of anti-Syrian opposition in Lebanon. The Damascus regime grew increasingly suspicious of Hariri, a situation that was not helped by the fact that Hariri salvaged those neoliberal rent-creation mechanisms of which he – and other new contractors – were the main beneficiaries, while attacking rent-creation mechanisms which were under the control of the former militia leaders, who were Syria's main allies in Lebanon. The way in which Hariri avoided financial crisis in 2002 by calling a donor conference with French and Saudi support is particularly revealing about the way in which the United States use neoliberalism to assert its global power. Chapter 7 presents the conclusions.

## 2. The rise of Rafiq Hariri 1976-1990

This chapter sets the scene for the rest of the study by looking at the way in which Rafiq Hariri entered Lebanese politics in the 1980s. Born as the son of a Sunni-Muslim small-holding farmer in the peripheral city of Sidon, Hariri belonged neither to Lebanon's pre-war political leadership – the *zu'ama* – nor was he a militia leader during the civil war. He was a Lebanese émigré who had amassed a fortune as a construction contractor in Saudi Arabia. Hariri's trajectory of emigration, business success, and return to a political role is not unique but Hariri had the most successful political career. Two questions will be addressed in this chapter. Firstly, why did so many members of a new contractor bourgeoisie manage to enter Lebanese politics and the economy in the 1980s? And secondly, why was Hariri more successful than the others?

Section 1 of the chapter looks at the way in which Lebanon's class structure was reshaped by the country's changing role in the capitalist world economy: During the civil war between 1975 to 1990 Lebanon lost its role as financial intermediary between Arab East and Western financial markets. This set in motion a process by which a new contractor bourgeoisie of Lebanese émigrés to the Gulf eclipsed the pre-war bourgeois families of Lebanon. These new contractors were embedded in networks of global trade and finance but this does not mean that Lebanese politics is simply determined by global class dynamics (Sklair, 2000). The way in which classes organise and how they relate to the nation-state requires an analysis of specifically local elites with their own histories. For a more detailed discussion of classes and elites, please see chapter 1. The new contractors are not just a class, they also need to be understood as a specific type of elite in the Lebanese context. They interacted with other specifically Lebanese types of elites with their own specific histories: pre-war bourgeoisie families, Shihabist technocrats, militia leaders and business allies. These actors are introduced in this chapter and will reappear in the later chapters on the neoliberal restructuring of the Lebanese economy.

Hariri was just one of several new contractors but he was by far the most successful one politically. The reason for his success was Saudi diplomatic and financial support. In sections 2 and 3 of this chapter the history of Hariri's relationship to the Saudi King is narrated to explain what it meant to be a client of the Saudi ruler. The two reasons for rising Saudi influence in Lebanon will also be explained. Firstly, changes in political economy opened up Lebanon to "second order rentierism" by the Saudi monarchy, with Hariri acting as an agent of "Saudi capital". Writing a biography of Hariri allows for a nuanced analysis of what it means to be an "agent" of Saudi capital. Secondly, Saudi influence needs to be analysed in terms of the triangular relationship between the US, Syria, and Saudi Arabia. This occurred in two phases. Between 1982 and 1984 the second Cold War was at its height (Halliday, 1986). This intensification of superpower conflict led to a rise in US interventions in "third world" countries. In Lebanon, the United States supported President Amin Gemayel through military intervention and by backing the Lebanese-Israeli withdrawal agreement of May 1983. This caused US-Syrian tension. Saudi King Fahd was a close collaborator in the conduct of the second Cold War, especially in Lebanon. Saudi Arabia therefore supported Gemayel's project. Hariri became closely involved in the Gemayel-Assad diplomacy over the 17<sup>th</sup> May agreement and collaborated in major construction projects with Gemayel. These projects would provide the foundation for post-war reconstruction (minus Gemayel). This phase is narrated in section 4. Between 1985 and 1990 Saudi Arabia and the US came to accept Syrian dominance in Lebanon. Hariri gave active diplomatic support for Syrian efforts at determining Lebanon's post-war order. His efforts culminated in the Saudi-brokered Ta'if agreement, which enshrined Syrian "guardianship" of its neighbour. Hariri's support for Syria's policy meant that President Hafiz al-Assad allowed the contractor to become prime minister in 1992. The phase of Saudi-Syrian rapprochement is dealt with in section 5. The final section looks at Hariri's philanthropy, unpacking the sectarian logic of distributing student loans as well as the political logic behind it. Philanthropy is highly political because it involves clientelism and the reproduction of sectarian discourses and practices.

## 2.1 From pre-war “merchant republic” to civil war economy: 1943-1982

After independence in 1943, Lebanon acted as a financial intermediary between the Arab East and Western financial markets, as well as an entrepot for Western consumer goods to the Middle East. Lebanon’s balance of payments data reflect this position (see appendix 1).<sup>1</sup> Imports of Western consumer goods created a large trade deficit, amounting to US\$508 million annually from 1964-1966. Lebanon also had an active export sector, re-exporting Western consumer goods as well as some domestically produced manufactured goods. Two thirds of exports went to Arab countries (Gaspard, 2004 p. 149). The shortfall in the trade balance was financed by large capital account surpluses created by the country’s banks, tourism, transport, and the real-estate sector. The main earners were nonfactor services and private short-term capital. The former includes tourism and transport, the latter accounts for financial inflows into Lebanese banks, which were subsequently recycled in global financial markets, contributing to incomes recorded as factor services. Foreign direct investment went primarily into real estate in Beirut.

Lebanon’s economic system differed substantially from its Arab neighbours and from most developing countries of the era. Rather than letting the state take the lead in economic development, Lebanon embraced a *laissez faire* economy. The capital account was completely liberalised between 1948 and 1952 and there were few restrictions on trade. The state eschewed import substitution industrialisation (ISI), in which infant industries are protected by trade restrictions and in which the state channels capital to industry. Large capital inflows meant that Lebanon did not suffer from the same dearth of investment capital that hobbled development in other countries. However, this did not mean that *laissez faire* was inherently superior to ISI. The ability of Lebanon’s liberal economy to attract capital was due to the illiberal policies of its Arab neighbours. Lebanon benefited from capital flight from Palestine

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<sup>1</sup> I am relying on the data compiled from various sources by the economist Toufic Gaspard (2004 pp. 146-147).

after the 1948 war and from Egypt, Syria, and Iraq in the 1950s and 1960s, where nationalisation drove away the bourgeoisie. The rising oil monarchies of the Gulf relied on Lebanese banks as conduits for recycling their oil money. When other Arab states started liberalising their economies in the 1980s and when the Gulf states started dealing directly with global (i.e. Western) financial markets, Lebanon's comparative advantage evaporated. Furthermore, laissez faire impeded structural change towards capitalist industrialisation (Gaspard, 2004 pp. 142-186). The share of agriculture in GDP fell from 20.2% in 1950 to 9.3% in 1971-73. Growth in services outpaced growth in industry: Commerce, transport, communication and finance grew from 36.1% to 43.4% of GDP while manufacturing only expanded from 12.1% to 14.0% (Gaspard, 2004 pp. 151-152). Gaspard notes that, despite Lebanon's capital abundance, investment rates were low.<sup>2</sup> Investment was concentrated in real estate, while manufacturing received relatively less money.<sup>3</sup> The spread of capitalist methods in agriculture resulted in a rural crisis and migration to the city.

Lebanon's pre-war economy generated substantial rents in trade and finance. Who appropriated these rents? Answering this question requires a closer look at the historical development of capitalist classes and of the political and economic elites of Lebanon. The integration of Christian silk producers and traders in Mount Lebanon into production processes centred in France in the 19<sup>th</sup> century shaped the transformation from the Ottoman sectarian hierarchy into the political sectarianism of the modern Lebanese state (Traboulsi, 2007 pp. 2-59). The French mandate from 1920 to 1943 established Lebanon as a separate state, cooperating closely with the country's Christian bourgeoisie which had tended to benefit most from close association with France. A Lebanonist nationalism that stressed a "Phoenician" heritage, as distinct from the wider Arab identity, was developed by intellectuals of Christian bourgeois families who "wished to preserve the world that enabled them to be affluent" (Kaufmann, 2004 p. 93). Other communities tended to embrace nationalist narratives that served their own particular confessional logic: Arab nationalism was most popular

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<sup>2</sup> They averaged about 20% between 1950 and 1974, while Singaporean rates rose from 18% in 1960-1966 to more than 40% in 1970-1979 (Gaspard, 2004 p. 153)

<sup>3</sup> Trade and services consistently captured over half of all commercial bank credit between 1964 and 1974, while the share of industry remained relatively lower (Rettig, 2004 p. 32).

among Sunni Muslims who were spread across the Arab world, members of the Druze community tended to embrace Arab nationalism in opposition to Maronite Lebanonism, and Syrian nationalism found a following among Greek Orthodox communities, which were concentrated in Syria (Salibi, 1988 p. 55). The national pact between the Maronite politician Bishara al-Khuri and the Sunni Muslim Riyadh al-Sulh in 1943 has often been interpreted as enlightened power-sharing by altruistic confessional elites, or a reaction to French colonialism (Lijphart, 1977 p. 154). Yet Sunni and Christian merchants and financiers actually accepted a separate Lebanese state out of economic self-interest: While Sunni Muslim merchants tended to dominate trade with the Arab hinterland, their Christian counterparts dominated trade with Europe (Johnson, 1986 pp. 25-26). A separate Lebanese state was the vehicle for this cross-confessional bourgeois alliance to appropriate rents from intermediation between the Arab East and Western markets. This strategy bore greater economic benefits than sectarian conflict.

Political and economic elites remained closely intertwined. The outstanding example of the combination of politics and business interests is the relationship between Bishara al-Khuri and his brother in law, the banker and intellectual Michel Shiha. Khuri had married Shiha's sister in 1922. Shiha did not just support Khuri financially but also provided an ideology based on the principles of confessional power-sharing and a *laissez faire* economy (Zamir, 2000 pp. 33-38). Historian Fawwaz Traboulsi has identified a "consortium" of about 30 families in business and politics which held monopolistic control over the main axes of the Lebanese economy in the 1950s (Traboulsi, 2007 p. 115). This circle centred around President Khuri. Even though this "consortium" was forced to broaden out as Khuri lost power in the early 1950s, the political and economic elites remained closely intertwined during the pre-war era.<sup>4</sup> Lebanon's leading politicians were referred to as *zu'ama*. They were communal leaders but also represented the interests of Lebanon's commercial-financial bourgeoisie. The country's major banks were controlled by a few families, as was trade. By 1974, the four biggest merchant houses were estimated to account for two thirds of all imports

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<sup>4</sup> 31 of the 159 cabinet ministers 1943 to 1973 belonged to the banker-industrialist- businessman category, 75 had family ties with the economic elite (Dekmejian, 1975 pp. 22-23).

from Western countries (Nasr, 1978 p. 5). Although land ownership was less concentrated than in other Arab countries, a few large landowners wielded enormous power over their domains. The market for inputs and for agricultural produce was controlled by a small number of merchant houses (Traboulsi, 2007 p. 158). Small farmers became dependent on large agribusinesses and many were squeezed out of the sector – including Hariri’s father, who had rented and owned two orange orchards before losing them to an unsympathetic landlord (Blanford, 2006 p. 14). The crisis in agriculture led to mass migration from rural areas to Beirut and Tripoli.

The relationships between the *zu’ama* and their communal following has sometimes been characterised as a “primordial” bond (Shils, 1966) but it contained a strong economic component. The “merchant republic” maintained a low-tax regime and the state provided only a low level of public services such as health or education. Only 40% of students were enrolled in government schools in 1973-74, 26% went to schools run by charities, the rest attended private schools (Gaspard, 2004 p. 84). Education and health therefore became patronage resource. A well-documented example is the Maqasid association, which was a patronage instrument and a bank of political resources at the disposal Beirut’s leading Sunni politician Sa’ib Salam (Johnson, 1986; Johnson, 1978; Schatkowski, 1969). Hariri would later build up a similar charity. Hariri’s and Salam’s philanthropic efforts are compared in the last section of this chapter and in chapter 5.

The *zu’ama*, who represented the interests of Lebanon’s commercial financial bourgeoisie and of large landowners, faced challenges from three groups. The first were the technocrats in the institutions promoted by President Fu’ad Shihab. He had been the army commander during the brief civil war of 1958. He had kept the military neutral, and he became the consensus choice as President. Shihab (1958-1964) and his successor Charles Hilu (1964-1970) attacked the power of the *zu’ama*: they expanded the role of the state in public education and health, extended infrastructure such as roads and electricity to peripheral areas of Lebanon, and used the expanded intelligence services to build alliances with popular forces and leftist leaders. Shihab

used the intelligence service – the Deuxieme Bureau – as an instrument of power to intimidate opponents both among the elites and at the popular level. However, what is more interesting for our purposes is Shihab’s use of technocrats to expand the capabilities of the Lebanese state to plan and implement economic policy. This is the twin legacy of Shihabism: the use of the military and intelligence services and the expansion of state capacity through Shihabist technocrats – a twin legacy later picked up by army commanders Michel ‘Awn and Emile Lahud at the end and after the civil war respectively. One of the most important measure in checking the economic power of the commercial-financial bourgeoisie of the pre-war era was the establishment of the central bank in 1964. Shihabist technocrats and their successors were in favour of a greater role for the state in the economy. They recognised that the unfettered economic liberalism of the “merchant republic” impeded economic and social development. They were not “socialists” but the kind of bureaucratic elite who, in Latin American or East Asian countries, had spearheaded “developmental state” projects (Johnson, 1999). One important sign of this new developmentalism was the IRFED mission, the first attempt at gathering reliable socio-economic statistics on Lebanon as a basis for planning. The study revealed great inequalities in living conditions, especially between Beirut and the country’s peripheral regions. Shihab and the technocrats who were acting in his spirit also perceived economic strategy to be a deeply political question. This is why Shihab confronted the zu’ama by undermining their clientelist networks. The Shihabists lost the presidency when Sulaiman Franjiyya – a za’im and candidate of the zu’ama – defeated Shihabist candidate Iliyas Sarkis in a parliamentary vote to become head of state in 1970. However, the technocrats operating in a Shihabist tradition remained a hugely important type of elite in Lebanon during civil war and post-war era. They included President Iliyas Sarkis (1976-1982), Prime Minister Salim al-Huss (1976-1980, 1987-1989, 1989-1990, 1998-2000), and Finance Minister George Qurm (1998-2000).

The Shihabists also fostered a new bourgeois faction. The Palestinian-born Yussuf Baydas was typical of this trend. With Intra Bank, he had built up the most influential business empire in Lebanon which included Middle East Airlines and the Beirut port company. He had close relations with the Shihabist regime and also financed

government projects. However, the established bourgeoisie staved off this challenge. Intra Bank was structurally weak because it financed itself with very short-term deposits. However, its failure in 1966 has to be explained by Lebanese government unwillingness – prompted by the established bourgeoisie – to keep the bank afloat (Traboulsi, 2007 pp. 149-150). The Intra crash exposed the underlying weakness of the Lebanese banking sector, namely the over-reliance on short-term deposits. Over the following decade, Western banks captured an increasing share of Lebanese banking business. Nasr estimates that the relative share of Lebanese banks in total banking activity dropped from 30% in 1966 to about 15% in 1975.<sup>5</sup>

The final group that challenged the *zu'ama* were mass protest movements. This new urban politics grew out of a confluence of several factors. Rural crisis and migration to the cities created a large group of discontented city dwellers opposed to the self-serving economic liberalism of the *zu'ama*. Moving to the city had removed the migrants from clientelist control by rural *zu'ama*, while urban politicians did not bother clientelising the newcomers who continued to vote in their villages. Many migrants experienced joint political socialisation with the Palestinians in their refugee camps. An important turning point was the “Cairo Agreement” of 1969 between the PLO and the Lebanese state, which allowed the Palestinians greater leeway in their armed struggle but was fiercely resisted by Christian parties such as the *Kata'ib*. The arming of the Palestinians was a major factor in the outbreak of the civil war in 1975, which saw a coalition of PLO and Lebanese leftists challenge the government and Christian sectarian militias. Rafiq Hariri was himself an activist in the Nasserite Arab Nationalist Movement (ANM) in Sidon before leaving the country for Saudi Arabia in 1964.

The civil war led to the loss of Lebanon's role as a financial intermediary between the Arab East and Western financial markets. The looting of major banks in Beirut spooked foreign institutions, which wound down their activities in Lebanon. In 1982, only one of Lebanon's 15 largest banks was wholly or partially owned by non-Lebanese, compared

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<sup>5</sup> Nasr (1978, p. 4) does not define what he means by “banking activity”.

to 12 in 1974.<sup>6</sup> Global developments also worked against Lebanon. The oil-shock of 1973 meant that enormous amounts of petro-dollars were being recycled by Gulf economies via investment, trade, arms purchases, and construction contracts with the US and European countries. The Gulf countries became much more closely integrated into global financial markets dominated by US finance (Gowan, 1999 p. 21). Crucially, Saudi Arabia pledged to deposit its foreign reserves in US banks. Estimates from 1979 suggested that US\$59 billion of Saudi funds were held in US government and private securities, equivalent to 2.9% of American GDP (Halliday, 1982 p. 132). The inflow of recycled petro-dollars fuelled the expansion of US finance after the end of the Bretton Woods system. More directly relevant for Lebanon is the fact that as Gulf oil producers grew more sophisticated in their dealings with Western financial markets, their need to rely on Lebanese banks as intermediaries declined.

This fundamental structural change was initially masked by continued financial inflows into Lebanon between 1975 and 1982. The continued oil boom pushed up the number of Lebanese workers in the Gulf from 50,000 in 1970 to 210,000 in 1979-1980, representing slightly more than a third of the nation's workforce, and sending US\$2.3 billion back to Lebanon in remittances (Nasr, 1989 p. 44). These remittances bolstered household incomes and bank deposits, and financed imports and investment in real estate. The oil boom also increased demand for Lebanese manufactured goods in the Gulf. Inflows of "political money" to the militias also bolstered the economy. The militias had a profound effect on the Lebanese economy. They did not so much alter the fundamentals of Lebanon's *laissez faire* economy – for instance a floating exchange rate and free capital movement – but their grip exacerbated the worst excesses of this form of capitalism, eventually resulting in the unfettered and predatory financial speculation of the 1980s (Picard, 2000). Militias took over most of the country's ports. The state thus lost its main source of income, namely revenues from customs duties. Militias came to dominate the trade in commodities such as flour, oil, or gas. Remittances and militia money created new wealth, in turn creating investment opportunities in upmarket real-estate development along Lebanon's coast. Several banks came under the influence of militia representatives. Good relations with the

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<sup>6</sup> Henry Moore (1987, p. 209) measures size by the value of the loan portfolio.

militias were beneficial for banks' business because of the inflow of militia funds and because trade financing was easier if banks could liaise with militias controlling the ports.<sup>7</sup> As mentioned above, international capital retreated. The reactive strategies of the pre-war bourgeois families diverged. Some simply internationalised their operations, obtaining banking licenses in locations such as Paris, London, or Cyprus. Thus the leading families remained important but the monopolistic grip on the Lebanese economy that they had enjoyed until 1975 was loosened. Despite the rise of the militias, it is important to note that the state did not collapse completely but played a stabilising function: it continued paying salaries to its employees and the central bank tried to maintain the integrity of the financial system.

Nor were militia leaders and their business allies the only ones flexing their muscle in politics and economy. A new generation of technocrats in the Shihabist tradition occupied central positions in the increasingly marginalised state. Iliyas Sarkis was elected president in 1976. He had worked closely with Shihab in the presidential palace and had been appointed governor of the central bank in 1967. Sarkis appointed Salim al-Huss as his prime minister. As head of the banking control commission at the central bank from 1967 to 1973, he had worked closely with Sarkis. Both men saw a role for the state in rebuilding Lebanon after the civil war. It was Sarkis who founded the Council for Development and Reconstruction (CDR) in 1977. The agency enjoyed unprecedented powers to direct the reconstruction of Lebanon. The central bank, too, maintained a broadly Shihabist outlook. In 1978, the central bank lifted a ten-year moratorium on new banking licenses, opening the gate to further restructuring of the banking sector and allowing another group of newcomers extend their influence in the Lebanese economy: the new contractor bourgeoisie (Hourani, 2010 pp. 298-299).

As mentioned above, a third of Lebanon's workforce had migrated to the Gulf by 1980. Some of these migrants accumulated great wealth, which they sought to invest in Lebanon at various levels of the economy. Lebanese who had grown wealthy in the Gulf or Lebanese businessmen in association with Gulf investors were responsible for

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<sup>7</sup> ANARAM, 4<sup>th</sup> June 1984, p. 4.

the majority of the new shopping centres which were opening up in the suburbs of civil war Beirut in the late 1970s and early 1980s (Nasr, 1985 pp. 325-326). The demand for new shopping centres had grown in the suburbs because the traditional shopping district in the city centre had become a no-go area. Some Lebanese became extremely successful contractors in the Gulf. In the late 1970s and in the 1980s, this new contractor bourgeoisie started buying up Lebanese banks and invested in construction in Lebanon, while seeking a political role as well. Rafiq Hariri is just the most famous example. Taha Miqati founded the Arabian Construction Company in Abu Dhabi in 1967 and enjoyed success in the Gulf. At one point Taha Miqati also took some subcontracts from Rafiq Hariri.<sup>8</sup> In 1982, Najib and Taha Miqati founded telecommunications company Investcom, which managed to penetrate markets such as Sudan, Liberia, and Yemen.<sup>9</sup> They also ran an analogue mobile phone network in civil war Lebanon. In 1983 Miqati bought the license for the British Bank of Lebanon from the British Bank of the Middle East.<sup>10</sup> Najib Miqati later became a parliament member, minister, and even prime minister. 'Issam Faris is a Greek Orthodox from rural north Lebanon.<sup>11</sup> After an early career in Abela, one of the country's most powerful trading houses, he built up his own group of businesses in 1975. His contracting firm Ballast Nedam received a string of lucrative contracts in Saudi Arabia. In 1983 Faris opened Wedge Bank in Lebanon with a new license from the central bank.<sup>12</sup> He employed Iliyas Sarkis as its chairman. Another new contractor was Adnan Abu Ayyash who rose to become a junior partner in the engineering company of Nasir al-Rashid, a Saudi with close links and access to contracts from the Saudi royal family (Iskandar, 2006 pp. 126-127). Al-Rashid was to play a central role in Hariri's rise, too. By 1982, Abu Ayyash's private wealth was said to amount to US\$300 million. In 1984 he acquired shares in the al-Madina Bank in Lebanon. The bank collapsed in 2003, an episode dealt with in chapter 6 and appendix 14. In short, there was a whole new contractor bourgeoisie of Lebanese expatriates in the Gulf, who were investing in Lebanese banks from the early 1980s onwards. Later on they would also invest in other ventures, such as mobile phones and real estate. Rafiq Hariri was thus part of a wider

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<sup>8</sup> Interview with Sabah al-Hajj, Beirut, 8th November 2008.

<sup>9</sup> *MEED*, 21<sup>st</sup> November 2008, p. 74.

<sup>10</sup> *ANARAM*, 4<sup>th</sup> June 1984, p. 6.

<sup>11</sup> Unless otherwise indicated, the information on Faris is from *Middle East Intelligence Bulletin (MEIB)*, November 2003, p. 12-17.

<sup>12</sup> *ANARAM*, 4<sup>th</sup> June 1984, p. 7.

trend. The rent-creation mechanisms that Hariri put in place after the end of the civil war have to be understood in terms of the interests of this class.

The characterisation of the new contractor bourgeoisie requires one further qualification, namely a more precise description of their relationship with the militia leaders who were running Lebanon during the civil war. Except for Faris, all the “new contractors” profiled above – Miqati, Hariri, Abu Ayyash – came from the Sunni community. Sunni militias were fatally weakened by the Israeli invasion in 1982, which expelled their main sponsor, the PLO. This meant that Sunni new contractors did not have to contend with militias within their own community in the same way that Maronite or Shi’i businesspeople had to. These latter two communities also included contractors who became wealthy abroad – including the Gulf and Africa – but their political ascendancy was blocked by militias which dominated politics within their confessional group. This meant that Maronite and Shi’i businesspeople tended to associate more closely with militias than new contractors from the Sunni community – for instance the Kata’ib, Lebanese Forces, or Amal. For instance, the businessman Roger Tamraz became the business representative of Amin Gemayel, while Amal leader Nabih Birri won the trust of the new Shi’i bourgeoisie. The Syrian military was another possible patron for businesspeople. Michel al-Murr is a good example. He accumulated great wealth as a contractor in West Africa in the 1960s (Abdelnour, 2003). He had started off his political life by supporting Amin Gemayel’s Kata’ib party but switched sides to the Syrian camp in 1985, when he helped negotiate the “militia agreement” in Damascus. By the 1990s his loyalty to the Assad regime was rewarded when he was made interior minister. Not only did he control security organs and the electoral process but also used his position to protect his quarrying businesses. Future references to the new contractor bourgeoisie excludes these businesspeople who became closely associated with militias and focuses on those – predominantly Sunni – contractor who could maintain a more independent posture vis-à-vis the men with guns.

## 2.2. Rafiq Hariri in Saudi Arabia and early stages of return to Lebanon 1964-1982

Rafiq Hariri was born in Sidon in 1944. Hariri's father Baha' al-Din owned a fruit orchard and rented another from an "unsympathetic landlord" (Blanford, 2006 p. 14). After a particularly bad harvest, Hariri's father lost both orchards. This was a major blow to Rafiq Hariri that was to shape his outlook and his early political activism.<sup>13</sup> Baha' al-Din Hariri was reduced to the status of a labourer and Rafiq Hariri would join him in his school holidays to work in the orchards. His father had thus been a victim of the crisis that swept Lebanese agriculture, in which large landowners and the monopolists of inputs and marketing would squeeze small producers. As a young Sunni Muslim in the southern port city of Sidon, it was almost natural that Rafiq Hariri would join the urban protest movement that was most popular among his community at the time, the Nasserite Arab Nationalist Movement (ANM). It was led by the Palestinian George Habash as well as Muhsin Ibrahim. A fellow activist from that time described Hariri as "a doer" who was reliable and fully committed.<sup>14</sup> Hariri participated in demonstrations, handed out pamphlets, and assisted clandestine operations, including smuggling ANM-leader George Habash out of Syria, where he had been imprisoned.<sup>15</sup> Hariri received his early political education in the ANM. He also built up contacts with people he would later recruit for his post-war political project. The most important one was the friendship with Fu'ad Siniura, who came from a prominent Sidon trading family. The two young men were classmates in school and fellow activists in the same ANM cell (Blanford, 2006 p. 17). Siniura went on to chair Hariri's Bank Méditerranée in the 1980s and served as finance minister when Hariri was prime minister. Hariri also

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<sup>13</sup> This is what Hariri related to his friend Robert Debbas. Interview with Robert Debbas, Beirut, 27th February 2008.

<sup>14</sup> Interview with Muhammad Mashnuq, Beirut, 6th November 2008.

<sup>15</sup> According to Fu'ad Siniura, who was in the same ANM cell as Hariri. *Al Hayat*, 21<sup>st</sup> May 2007, available in English translation at: <http://english.daralhayat.com/Spec/05-2007/Article-20070521-aeecdc4a-c0a8-10ed-01b2-ed88fe3e826/story.html>, viewed on 6<sup>th</sup> March 2008.

built a relationship with leftist ANM intellectual Muhammad Kishli, who liaised with the Lebanese trade unions on Hariri's behalf in the 1990s.<sup>16</sup>

After completing secondary school, Hariri moved to Beirut to study accounting at the Arab University, which had been founded by Egypt's Nasir in 1960. However, Hariri was unable to finance his studies, a problem made all the more acute by the birth of his first child with his first wife Nida (Blanford, 2006 p. 17). In 1964, Hariri moved to Saudi Arabia where he first worked as a teacher, then as an accountant. There are diverging accounts of what happened next: Hariri's supporters maintain that his wealth is due to his personal qualities as a businessman, while his opponents think of Hariri as a Saudi creation, made rich by the King and sent back to Lebanon as an instrument of Saudi power. The story of Hariri's business success is more complicated than either narrative suggests.<sup>17</sup> In 1973 Hariri worked as an accountant for a Saudi contracting company when oil prices rocketed. Input prices shot up as well, pushing the business into bankruptcy. Yet the position allowed Hariri to learn the ropes of contracting, handling all aspects of the business. Hariri then struck out on his own, founding a contracting company with his cousin. They fulfilled small sub-contracts for his former boss. This was part of a wider gold rush in Saudi Arabia at the time. Hundreds of thousands of small scale contracting and trading enterprises were registered in the 1970s and 1980s, creating a highly competitive environment of companies all pursuing big contracts (Hertog, 2010 p. 295). However, this company fell victim to another oil-shock in 1975. Hariri faced a heavy debt burden. He was down and out, had to give up his apartment but continued to chase his dream of a big contract.

Hariri kept up appearances, dressing smartly and mingling with Western contractors. His big break came when Nasir al-Rashid, an engineer who had won a contract from King Khalid, had difficulties realising a project in 1976.<sup>18</sup> The American company that had promised to build three tower blocks in Riyadh pulled out in the last minute. Al-

<sup>16</sup> *Lebanon Report*, Spring 1996, p. 7.

<sup>17</sup> Unless indicated otherwise, this account of Hariri's business success is based on an interview with a business partner and friend to Rafiq Hariri. Interview with Robert Debbas, Beirut, 27th February 2008.

<sup>18</sup> Interview with Robert Debbas, Beirut, 27th February 2008. Personal website of Nasir al-Rashid, <http://www.nasserarashid.net/>, viewed on 11<sup>th</sup> September 2010. (Blanford, 2006 p. 18).

Rashid approached Hariri who managed to persuade an Italian company to take on the project. The commission Hariri received for this contract was enough to settle his outstanding debts. After the successful completion of the project, King Khalid asked al-Rashid and Hariri to tackle another highly ambitious contract: the Masara hotel in the resort of Ta'if, to be completed in only ten months. Hariri procured the French construction company Oger as the contractor, overcoming the management's initial reluctance to tackle the high-risk project. A contract for US\$112.5 million was signed in January 1977.<sup>19</sup> The contract was fulfilled in record time and with little regard for cost. Without Hariri's drive and energy, the project would have been impossible to realise. Crown Prince Fahd was said to have been deeply impressed by al-Rashid's and Hariri's feat and they received a string of highly lucrative contracts. Hariri was also rewarded with a Saudi passport, a rare perk for a foreigner. Citizenship bestowed tangible monetary benefits because non-Saudis were legally obliged to rely on Saudi citizens as middlemen to obtain certain contracts (Beblawi, 1990 p. 92). In January 1978 Hariri established Saudi Oger to manage projects in the kingdom and in 1979 he bought the French mother-company. In summary, Hariri's business success was due to a combination of his personal abilities and the mechanics of Saudi royal patronage. The young Lebanese businessman was struggling to get a break in Saudi contracting. Only through his association with Nasir al-Rashid did he gain access to highly lucrative royal contracts. Al-Rashid is the scion of a clan, which had maintained an emirate centred in Ha'il throughout much of the 19<sup>th</sup> century but was defeated by Ibn Saud in 1921 (al-Rasheed, 2010 pp. 25-29, 41-42). The Saudi royals tended to co-opt their opponents and Nasir al-Rashid was still reaping the benefits of this policy in the 1970s, when he gained access to royal contracts. Hariri's relationship to King Khalid and to Crown Prince Fahd was still purely commercial and managed by al-Rashid: Hariri had little direct access to the crown prince or the king while al-Rashid acted as a "gatekeeper".<sup>20</sup>

Immediately after his initial business success in Saudi Arabia, Rafiq Hariri started his economic, philanthropic, and political engagement in Lebanon. Initially, he focused on his native Sidon. In 1977 he made a major donation to his former school, run by the

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<sup>19</sup> *Middle East Economic Survey (MEES)*, 7<sup>th</sup> February 1977, p. 9.

<sup>20</sup> Interview with Robert Debbas, Beirut, 27th February 2008. Hertog, 2010 pp. 290-291.

Sidon Maqasid association (Hariri Foundation, 2004 p. 25). In 1979 he founded his own philanthropic association called the Islamic Foundation for Culture and Higher Education. In 1979 Hariri opened a branch of his Oger company in Lebanon in order to build the Kfar Fallus centre near Sidon. Hariri would later repeat the pattern of engagement in local politics of Sidon on a national scale.<sup>21</sup> Rather than displacing the city's notable families or militias, Hariri sought to win them over by using patronage. His financial means were far superior to those of established local actors. Hariri also placed allied technocrats in municipal administration and clientelised the Sunni mufti of Sidon. The Bizri family, who brought forth the leading zu'ama of the city, eventually became Hariri allies. Hariri enjoyed a more tense relationship with Mustafa Sa'd and his son 'Ussama, who were leading the Sunni-dominated leftist and popular movement in Sidon.<sup>22</sup>

Hariri also started investing in the economy. In 1981 Hariri bought a 73% stake in the Mediterranean Investment Group (MIG), which owned Banque Méditerranée in France and Lebanon as well as some other interests.<sup>23</sup> Khuri had steered the bank into trouble by speculating in the silver market. Hariri provided the necessary capital to keep the bank afloat. However, in 1983 Hariri eased Khuri out of the chairmanship of MIG, reportedly because he had hidden the true extent of the bank's troubles from Hariri. Fu'ad Siniura became chairman and general director of Banque Méditerranée in France and Lebanon. Hariri also obtained a license to open the Saudi Lebanese Bank in 1981.<sup>24</sup> In his book on post-war Lebanese corruption, Najah Wakim claims that Hariri met President Sarkis in 1978 to discuss a maintenance contract for Lebanon's electricity system (Wakim, 2006 p. 18). If true, this would indicate a very early desire to obtain construction contracts in Lebanon. After his initial business success in Saudi Arabia between 1976 and 1978, Hariri immediately turned his attention to business

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<sup>21</sup> Unless otherwise indicated, the following section is based on Bonne, 1995.

<sup>22</sup> Hariri paid for Mustafa Sa'd's medical treatment when he lost his eyesight in a bomb attack in 1985 but his son 'Ussama ran against Bahiya Hariri in several post-war elections. *Al-Safir*, 23<sup>rd</sup> January 1985, p. 8. *MEI*, 10<sup>th</sup> September 1996, p. 12.

<sup>23</sup> Unless indicated otherwise, the following information is based on *ANARAM*, 7<sup>th</sup> February 1983, p. 4-5.

<sup>24</sup> According to the chairman and general manager of Saudi-Lebanese Bank. Interview with Sabah al-Haj, Beirut, 8<sup>th</sup> November 2008.

opportunities in Lebanon. However, he made little headway until the Israeli invasion in 1982.

### **2.3. Rafiq Hariri and the clean-up of Beirut in 1982**

Rafiq Hariri was not unique: he was one of several Lebanese who had emigrated to the Gulf and had accumulated great wealth as contractors there. Several of them returned to Lebanon to invest in construction and finance and to engage in the country's politics. They used the economic and political opening that the civil war represented. Not only was the political dominance of the *zu'ama* broken, the shift of Lebanon's role in the world economy allowed the new contractors to buy up assets from the pre-war bourgeoisie and from international investors, who were fleeing the country. However, Rafiq Hariri was by far the most successful member of this class, both in civil war diplomacy and as prime minister. What distinguished Hariri from the other contractors was the strong diplomatic support that he received from King Fahd of Saudi Arabia. Other new contractors also built strong relations with members of the Syrian regime or with the US administration but no other country relied on a businessman to represent its interests in Lebanon in the same way that Saudi Arabia used Hariri. What is required, therefore, is an account of the reasons for rising Saudi influence in Lebanon, which bolstered Hariri's power in the country. Moreover, the "upgrading" of Hariri's relationship with King Fahd needs to be explained. Up until the Israeli invasion of Lebanon, Hariri's relations with the monarch were commercial and indirect, mediated by Nasir al-Rashi. Hariri used the the clean-up project of Beirut by his company Oger Liban, to show the King that he could be politically useful in Lebanon. Only afterwards did Hariri become the "Saudi mediator" between Lebanon's warring parties, taking on the role as "Saudi man in Lebanon".

Israeli forces invaded Lebanon in June 1982, linked up with the Lebanese Forces, and proceeded to besiege West Beirut where the PLO leadership was stationed. After weeks of shelling, Yassir Arafat eventually had to withdraw his forces and go into exile

in Tunisia. Bashir Gemayel was elected president by the Lebanese parliament in a vote held under Israeli guns. However, Gemayel fell victim to a bomb attack on 14<sup>th</sup> September 1982. His brother Amin was elected president on 21<sup>st</sup> September 1982.

The Israeli invasion left massive destruction in its wake. Oger Liban went to work in Sidon to clear away debris, survey the war damage, reinstate public utilities, and give emergency aid to refugees (Hariri Foundation, 1992 p. 45). Hariri decided to do the same in Beirut, thus assuming a national role, rather than just a local one. Hariri put the Oger engineer Fadl Shalaq in charge of the clean-up of Beirut, giving him a blank cheque to use funds from the Hariri-owned Saudi Lebanese Bank (Shalaq, 2006 pp. 60-61). The work involved clearing barricades and sandbags, removing rubble and securing dangerous buildings, while French forces were clearing landmines. The style of project management was typical of the early Oger projects and comparable to the Ta'if hotel construction. Relentless speed was combined with a disregard for cost. The daily truckloads transported to landfill was raised from 135 to 1,000 and 286,646 cubic metres of rubble were removed in only 30 days (Shalaq, 2006 p. 78). Cost quickly escalated from US\$5.9 million estimated at the beginning to an eventual US\$27 million.<sup>25</sup>

Hariri lacked the political connections necessary for realising the project in a city still riven with divisions between militias, Lebanese army, and Israeli occupiers. Hariri therefore solicited Sa'ib Salam's support for the clean-up, an arrangement that was beneficial to both men. For the Beirut za'im, the Oger project provided a platform from which to restate his claim to leadership of Sunni Beirut. At the project launch on 5<sup>th</sup> September 1982 Salam thanked Hariri, "the son of great Sidon", in the name of "heroic Beirut".<sup>26</sup> He stressed that Hariri was working together with Maqasid. Hariri, in turn, required political support for the clean-up. As Shalaq put it: "The real question was not: 'why Saib Bek'? But 'who but Saib Bek?'" (Shalaq, 2006 p. 52). Salam ensured the support of the governor and the mayor of Beirut and also arranged a meeting between

<sup>25</sup> Importing 40 heavy trucks from Saudi Arabia to expedite clean-up cost US\$13 million alone. (Shalaq, 2006 p. 78, *Al Safir*, 6<sup>th</sup> September 1982, p. 4; *Al Safir*, 25<sup>th</sup> January 1985, p. 5).

<sup>26</sup> *Al Safir*, 6<sup>th</sup> September 1982, p. 4.

Shalaq and Nabih Birri, the militia leader in charge of Beirut's predominantly Shi'i southern suburbs (Shalaq, 2006 p. 74). The clean-up is often interpreted as a project by King Fahd, carried out by Rafiq Hariri. However, when Hariri embarked on the clean-up, his relationship with Fahd was still being mediated by Nasir al-Rashid. Hariri started the project without Fahd's help and only approached the King once it was underway, lobbying him vigorously through numerous channels.<sup>27</sup> An important intermediary was Hariri's new Beirut ally Sa'ib Salam.<sup>28</sup> Hariri was trying to show the king that he could be politically useful in Lebanon. The king did indeed recompense Hariri. The initial posters on Oger's trucks publicised the "Project of Cleaning Beirut, courtesy of Rafiq Hariri, Oger Liban 1982" (Shalaq, 2006 p. 60). Once Fahd had been brought on board, they were replaced with posters advertising the clean-up as a donation by the Saudi king.<sup>29</sup>

Why did Rafiq Hariri return to Lebanon? Hariri pursued a political and economic "vision" for Lebanon. Foreign Minister Elie Salem described this aspect of Hariri's motivation in his memoirs:

"Hariri was a dreamer, but with a difference: he often realised his dreams [...] When I visited Hariri in his new residence [in Saudi Arabia], he seemed to be living more in his native Sidon than in Riyadh. Here he was, one of the busiest entrepreneurs in the world, and yet he still followed the course of Lebanese politics with the passion of one who wanted to get involved and change it. To him, the solution to the Lebanese crisis was not unlike a project: it could be contracted out and successfully completed on time." (Salem, 1995 p. 103)

Other contemporaries also describe Hariri's propensity to mull over solutions to Lebanon's problems even before 1982.<sup>30</sup> Hariri had developed a political consciousness and a desire to effect political change during his time as an activist in the Arab Nationalist Movement. The vehicle for Hariri to realise his "vision" was his alliance with the Saudi King, which opened the doors to Lebanon's political elite. Yet it would be wrong to assume that Hariri was entirely selfless in his political engagement, he also had self-interested economic reasons to return to Lebanon. Hariri had experienced the

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<sup>27</sup> Interview with Robert Debbas, Beirut, 27<sup>th</sup> February 2009.

<sup>28</sup> Interview with Tammam Salam, Beirut, 23<sup>rd</sup> January 2008.

<sup>29</sup> Interview with Charbel Nahas, Beirut, 2<sup>nd</sup> June 2008.

<sup>30</sup> Interview with Robert Debbas, Beirut, 27<sup>th</sup> February 2009.

shocks of the Saudi oil economy. He had lived through bankruptcies in 1973 and 1975. The only way to avoid the vagaries of business was to build up a direct, close and firm relationship with the Saudi King. This was particularly important in 1982, when Hariri's contracting business in Saudi Arabia was severely hit by the end of the oil boom. The economist Marwan Iskandar wrote at the time that Hariri had earned profits of no less than US\$750 million on "cost-plus" contracts between 1979 and 1982.<sup>31</sup> Under cost-plus arrangements, contractors are reimbursed for all their outlays. The risk for the contractor is thus minimal and there is no incentive to control cost. In 1982, cost plus contracts were prohibited in Saudi Arabia in order to cut government expenditure in the face of falling oil prices. Iskandar writes that Hariri had to cut his workforce by 40%. Hariri was opening up new sources of revenue by diversifying into Lebanese finance and construction. Furthermore, Hariri's political usefulness to King Fahd ensured continued access to royal contracts. The importance of direct access is illustrated by the episode of a major hospital contract in 1984. The health minister Ghazi al-Qusaibi was a Saudi technocrat who insisted that the tender follow correct procedure. However, the minister was sidelined and was unable to gain access to Fahd to make his case. Qusaibi's marginalisation was reportedly due to pressure from Rafiq Hariri who was bidding for the contract.<sup>32</sup> In frustration, the health minister penned a poem addressed to the ruler and published in the newspaper al-Jazira:

Between you and me, there are 1,000  
informers cawing like crows,  
So why do I need to continue talking or  
singing?  
My voice will be lost and you will feel  
its echo.  
Between you and me there are 1,000  
informers who are lying.  
You were cheated and you were pleased with the cheating,  
But in the past you were not like this,  
admiring false things.<sup>33</sup>

<sup>31</sup> ANARAM, 3<sup>rd</sup> October 1983, p. 3.

<sup>32</sup> According to al-Qusaibi's obituary in the *Guardian*, Rafiq Hariri had persuaded King Fahd to over-rule his health minister. In April 1984, al-Qusaibi was dismissed. The *Middle East Economic Digest* wrote: "Al-Gosaibi had incurred the displeasure of many in the past few months – health service companies and ministry officials alike – because of his aggressive style. 'When he started in the job, everyone was 100 per cent behind him, but then things started to go wrong,' one health company manager says." Several hospital construction contracts were subsequently awarded without public tendering. *MEED*, 27<sup>th</sup> April 1984, p. 37. *MEED*, 18<sup>th</sup> May 1984, p. 67. *Guardian*, 25<sup>th</sup> August 2010, p. 35.

<sup>33</sup> Recounted in an obituary to al-Qusaibi. *Guardian*, 25<sup>th</sup> August 2010, p. 35.

Al Qusaibi was subsequently sacked. Through the clean-up in Beirut Hariri had leaped the “1,000 informers cawing like cows” and had gotten direct access to the King. He had shown he could be politically useful in Lebanon. The patronage resources Hariri was to spend in Lebanon on behalf of Saudi Arabia were provided by means of lucrative royal contracts. Hariri’s political role in Lebanon thus guaranteed his success as a contractor in Saudi Arabia. By 1984 the lucrative contracts that Oger had received included the Royal Diwan, the Council of Ministers, and the buildings for the Secretary General and the Majlis al-Shura in Riyadh.<sup>34</sup>

#### 2.4. Support for the Gemayel project 1982-1984

Hariri’s wealth and his access to the top table at which the country’s future was negotiated depended on his alliance with the Saudi king. In turn, Saudi Arabia’s rising influence in Lebanon is due to two factors: economic power and the dynamics of the triangular relationship between the US, Syria, and the kingdom. Time, then, to turn to Saudi relations with the US and Syria. The US-Saudi relationship is often reduced to “the deal”: the provision of security by the US in exchange for Saudi oil. However, the relationship goes deeper. The US have been deeply implicated in Saudi state-building since the first oil concession in 1932, for instance through the oil company ARAMCO (Vitalis, 2009). Bronson argues that US-Saudi relations are “thicker than oil”: In its Cold War struggle, the US relied on the conservative monarchy to confront communism and Arab nationalism in the Middle East (Bronson, 2005). This meant that relations were especially cordial when the Cold War confrontation was at its peak. The early 1980s were such a phase of intensified superpower conflict, known as the “second Cold War” (Halliday, 1986). King Fahd had been lukewarm on detente and was enthusiastic about President Reagan’s escalation of the Cold War confrontation. The two countries cooperated in various third world interventions, most famously in Afghanistan. In Lebanon, both the US and Saudi Arabia supported the political project of President Amin Gemayel.

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<sup>34</sup> MEES reported that Oger had secured a loan over US\$72 million from Arab Bank to cover these contracts. *MEES*, 1<sup>st</sup> October 1984, p. B4.

Syria was very different. While Saudi Arabia was a conservative monarchy, Syria was a “revolutionary republic” and a populist authoritarian regime (Ayubi, 2001 pp. 197-214). While the kingdom was a close US ally, Syria stood in the Soviet camp. While both Arab states were opposed to the Zionist project, Saudi Arabia considered Soviet communism an equal or even greater threat than Israel. This explains Saudi support for Afghan fighters against the Soviet invasion in 1979, an issue entirely alien to the Damascus regime. Damascus and Riyadh reacted very differently to the Iran-Iraq war. While Saudi Arabia saw the Iranian revolution as a threat, Syria regarded it as an opportunity to strengthen the front against Israel. Syria was the only Arab country supporting Iran, while the Arab monarchies in the Gulf rallied around Saddam Hussain’s Iraq. Yet all these differences mask a high degree of cooperation based on joint Arab and Islamic identity (Sunayama, 2007). Most importantly for our story, in 1978 Saudi Arabia decided to reject the Camp David accord between Israel and Egypt, joining the rejectionist camp of Arab states (Pollock, 1988 pp. 147, 151). The Saudi aim appears to have been to remain within the “Arab consensus”, to prevent further Soviet infiltration of the Middle East, and to move the consensus towards an eventual negotiated peace with the Jewish state.

The means by which Saudi Arabia and Syria exerted influence in Lebanon differed a great deal. While Syria could project military force into the neighbouring country, Saudi Arabia used its superior financial means to influence Lebanese politics. The outbreak of civil war in 1975 resulted in Syrian intervention in 1976, supported by Saudi Arabia. The loss of Lebanon’s role as financial intermediary between Arab East and Western financial markets allowed the kingdom to use its financial muscle to realise its goals in the country. Syria itself was also becoming reliant on Saudi financial support because the cost of state-led import substitution in Syria was escalating. However, the limits of “riyalpolitik” in Lebanon were, to a large extent, set by Syria. The kingdom’s chief concern was to square its close alliance with the US and solidarity with Syria as an Arab and Islamic state. Between 1982 and 1984, this was impossible because Reagan was confronting al-Assad as a Cold War adversary. The US supported

the project of President Amin Gemayel, which included a withdrawal agreement with Israel that challenged Syrian control over Lebanese decisions of war and peace with the Jewish state. Saudi Arabia supported the American line but also sought to act as a “mediator”, in effect trying to persuade Assad to accept the withdrawal agreement. Hariri was involved in this mediation in a junior role. After Gemayel was defeated by Syria’s allies in Lebanon in 1984, Saudi and US attention moved increasingly to the Gulf, allowing Hariri to prepare the ground for an eventual US-Syrian rapprochement over Lebanon.

From 1982 to 1984 Saudi Arabia supported Amin Gemayel’s project, which consisted of three components. The first was to achieve the withdrawal of all foreign forces, both Israeli and Syrian. The means to achieve this was to conclude a withdrawal agreement with Israel on 17<sup>th</sup> May 1983, removing the *prima facie* reason for the Syrian military presence. This raised Assad’s ire, contradicting his goal of containing Israeli influence in Lebanon and preventing separate peace agreements. The Reagan administration also supported Gemayel. Its aim was to confront Soviet influence in the Middle East, represented by the Syrian regime. In the minds of US strategists, Lebanon became a “major theatre of surrogate Cold War confrontation”.<sup>35</sup> Gemayel and his US backers were now locked in confrontation with the Damascus regime, which mobilised its local allies in a rejectionist coalition: Walid Junblat’s predominantly Druze PSP, Sulaiman Franjiyya’s Marada militia, and Nabih Birri’s Amal. Whether the kingdom supported or opposed the 17<sup>th</sup> May agreement is in dispute, but Saudi diplomacy seemed designed to persuade the Syrians to accept the agreement.<sup>36</sup> The second component of the Gemayel project was to use the army as his power base and to extend its control over the whole Lebanese territory, thus subduing militias allied to Syria. The US bolstered army capabilities through major arms sales and famously shelled PSP positions from the aircraft carrier *New Jersey* in December 1983. Saudi Arabia expressed its misgivings about the actions of Gemayel’s army but subsequently acquiesced to them.<sup>37</sup> The third

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<sup>35</sup> Quandt quoted by Gerges (1997 p. 96).

<sup>36</sup> Deeb (1988, p. 180) finds that Saudi Arabia maintained a deliberately ambiguous attitude, Sunayama (2007, p. 142) maintains that the Saudis sought to dissuade Gemayel from signing it, Abu Khalil (2008, p. 89) claims that Gemayel coordinated closely with the kingdom when he was negotiating with Israel.

<sup>37</sup> *ANARAM*, 22<sup>nd</sup> November 1982, p. 1.

aspect of the Gemayel project was control of the levers of the economy. Amin Gemayel had already built a reputation as “Mr. Ten percent” (Stork, 1983 p. 6). Gemayel sought to control key government institutions, in effect “Kata’ibising” the state. He founded the Council of Foreign Economic Relations (COFER) as a “super-ministry” and sought to either take over or sideline the CDR.<sup>38</sup> Furthermore, he placed his confidant Roger Tamraz at the head of Intra Invest, the holding company that had taken over the remnants of Yussuf Baydas’ business empire in 1966. The economy was the main avenue for Saudi influence in Lebanon. On a visit to Riyadh in November 1982, King Fahd obliged Gemayel to keep Lebanon open to Saudi investments.<sup>39</sup> Gemayel therefore initially sought to ally himself with Saudi capital in pursuit of his economic objectives. Rafiq Hariri was to be the conduit of this investment.

Hariri’s diplomatic role grew from 1983 onwards as other Saudi representatives or allies were sidelined. In April 1983, Saudi ambassador ‘Ali al-Sha’ir was recalled to Riyadh and promoted to the position of information minister.<sup>40</sup> Ambassador Al-Sha’ir had previously been the most influential Saudi actor in Lebanon. Apart from his diplomatic role, al-Sha’ir had also been the main distributor of Saudi patronage in Lebanon.<sup>41</sup> The recall paved the way for Hariri’s increased role. Hariri acted as a junior mediator during the Shuf war in September 1983. The Israeli withdrawal from the area had precipitated fighting between Junblat’s PSP and the Lebanese Forces, supported by the Lebanese army. Prince Bandar bin Sultan had been appointed as a mediator between the Americans and the Syrian regime in June of the year and was now leading the Saudi diplomatic effort for a ceasefire in the Shuf. For security reasons Bandar only met the different parties in Damascus, while Hariri liaised with them inside Lebanon (Salem, 1995 p. 120; Simpson, 2006 p. 103). Hariri played only a junior role in the

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<sup>38</sup> ANARAM, 22<sup>nd</sup> August 1983, p. 4. Hourani, 2010 p. 300.

<sup>39</sup> ANARAM, 22<sup>nd</sup> November 1982, p. 1.

<sup>40</sup> ANARAM, 2<sup>nd</sup> May 1983, p. 5.

<sup>41</sup> For examples, see: MEED, 10<sup>th</sup> December 1976, p. 24. MEED, 4<sup>th</sup> March 1977, p. 24. MEED, 11<sup>th</sup> March 1977, p. 30. MEED, 7<sup>th</sup> October 1977, p. 29. MEES, 9<sup>th</sup> July 1979, p. 1.

negotiations but his involvement in the diplomacy signified a major increase in his stature.<sup>42</sup>

The ceasefire agreement was followed by a national reconciliation conference, a national dialogue supported and facilitated by the Syrian regime. Hariri brokered an agreement for Geneva as the location and helped bring the delegates there in late October 1983. Although Hariri was only a junior Saudi delegate he could make himself known to all parties and posed as “the real voice of King Fahd” (Blanford, 2006 pp. 25-26). The foreign minister of Lebanon, Elie Salem, later claimed in his memoirs that he was so impressed by Hariri’s performance that he urged Gemayel to appoint Hariri prime minister. Gemayel declined (Salem, 1995 p. 120). The conference could not resolve the impasse over the 17<sup>th</sup> May agreement. The Lebanese president together with the United States and Saudi Arabia embarked on another round of diplomatic initiatives to persuade al-Assad to accept the agreement. Hariri supported the mission by American envoy Donald Rumsfeld at the end of 1983 and tried to broker a “security plan” for Beirut in January 1984 (Salem, 1995 pp. 142-143).

The Gemayel project received a fatal blow on 6<sup>th</sup> February 1984, when Amal and the PSP launched an all-out attack on the army in Beirut, pushing it out of the Western part of the city. The next day, the US marines who had first arrived in August 1982 withdrew from Lebanon. America and the Saudi kingdom had been unable to either defeat Syria or convince it to accept the 17<sup>th</sup> May agreement. All that was left for Saudi Arabia was to negotiate a ceasefire between Gemayel and his opponents. Hariri was deeply involved. He toured Damascus, Beirut and Larnaca but it took a visit by Crown Prince ‘Abd Allah on 24<sup>th</sup> February to persuade Syria to agree to a ceasefire. On 29<sup>th</sup> February Gemayel travelled to Damascus and formally renounced the 17<sup>th</sup> May agreement. The Lausanne conference of March 1984 once again brought all Lebanese actors together but this was merely a show of Syria’s unassailable position in Lebanon.

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<sup>42</sup> It took a Damascus visit of the newly promoted information minister ‘Ali al-Sha’ir as well as the intervention of King Fahd himself to produce a ceasefire agreement on 23<sup>rd</sup> September 1983; Simpson, 2006 pp. 105-108; Sunayama, 2007 pp. 233, FN 21.

Hariri was once again present in a junior capacity. By now he had become deeply involved in the diplomacy of the civil war.

Saudi support for Gemayel's project was conditional on the president's acceptance of increased Saudi investment in Lebanon. This paved the way for Hariri's investment in Lebanese finance and construction. In February 1983 Hariri took control of the top positions of Bank Med.<sup>43</sup> He also engaged in three construction projects with the backing of President Gemayel: Beirut's city centre, the northern littoral, and the southern suburbs of the capital. Profits were to be realised by creating rent from the land. All three projects were premised on the success of the Gemayel project because they relied on army control of the areas under construction and on political support from the president, for instance through his influence on the CDR as the agency in charge of government construction contracts. As early as 1983, Rafiq Hariri started drawing up plans for reconstructing Beirut's city centre. The area had been the "heart" of the pre-war city and had acted as a centre for commerce, trade, government administration, culture, and transport (Khalaf, 2006). It had become a target of rival militias right from the start of the civil war and became a virtual no-go area, although war displaced, mainly from southern Lebanon, moved into many properties abandoned by their owners. The area remained at the heart of Hariri's reconstruction policy and the centrepiece of his "vision" for Lebanon during and after the war. In January 1983 Oger tore down Suq Nuriya and Suq Tawil.<sup>44</sup> Oger painted the facades in the Mara'ad area in the first half of 1983 and built a prototype block of houses in Suq Tawil in the winter 1983 to 1984. Hariri also prepared a model of the reconstructed city and showed it to Gemayel (Salem, 1995 p. 103). In mid-July 1983, the army, backed by the Lebanese Forces, engaged in an eight-hour battle to evict Lebanese war-displaced from Wadi Abu Jamil, an area of the city centre (Sayigh, 1994 p. 135). Whether the army action was coordinated with Hariri or not, the eviction of the displaced was a prerequisite for reclaiming the area's real-estate.

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<sup>43</sup> ANARAM, 7<sup>th</sup> February 1983, p. 4-5.

<sup>44</sup> Interview with Charbel Nahas, Beirut, 2<sup>nd</sup> June 2008.

Another Hariri project carried out in conjunction with Gemayel was the development of the littoral north of Beirut. This had long been a pet-project of Gemayel.<sup>45</sup> In July 1983, Rafiq Hariri won the contract to execute the plan. His partner was Joseph Khuri, an engineer from Gemayel's town of Bikfaya who was considered close to the president.<sup>46</sup> The third project was the development of luxury housing in the southern suburbs. Hariri's plans for gentrifying the area implied the displacement of the predominantly Shi'i refugees in the area, who were supporting Nabih Birri's Amal movement, a move that would politically benefit Gemayel (Verdeil, 2001 p. 72). As early as October 1982, Oger Liban appears to have coordinated the clean-up of southern Beirut with the Lebanese army. While the military was tearing down "informal" and "illegal" housing in southern Beirut, Oger was removing rubble and road blocks.<sup>47</sup> In 1983, Oger presented a plan for the area, developed in coordination with Gemayel's Committee for the Development of the Southern Suburbs (Hariri Foundation, 1992 p. 72): High value tourism and luxury residences were to be developed in areas close to the sea and the beaches (Verdeil, 2002 p. 539). This was the same logic of value-creation as in the city centre. Yet the predominantly Shi'i inhabitants of the area interpreted the resettlement plans by the Maronite president and the Sunni contractor as an attack on their community.

Relations between the Saudi contractor and the president were not entirely smooth.<sup>48</sup> In August 1983, Rafiq Hariri intervened on behalf of the head of the CDR, Muhammad 'Atallah, in a dispute with President Gemayel. 'Atallah was an economist from Hariri's hometown Sidon and had been appointed by President Sarkis in 1977. The Shihabist technocrat objected to the blocking of CDR contracts he had awarded and the sidelining of the CDR by Gemayel's "super-ministry", the COFER. 'Atallah was opposed to Gemayel's "Kata'ibisation" of the state and sought the support of Hariri, the contractor and Saudi envoy. In August 1983, 'Atallah resigned in protest and left Beirut

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<sup>45</sup> *ANARAM*, 27<sup>th</sup> June 1983, p. 7.

<sup>46</sup> *ANARAM*, 18<sup>th</sup> July 1983, p. 4. *ANARAM*, 8<sup>th</sup> August 1983, p. 7-8. (Verdeil, 2001 p. 71).

<sup>47</sup> Sayigh (1994, p. 134) mentions Uza'i, Burj al-Barajna, Shatila. See also Hariri Foundation, 1992 p. 68. It is not clear whether Oger's actions were coordinated with the army, but it did coordinate with the Committee for the Development of the Southern Suburbs, an institution set up by Gemayel (Verdeil, 2001 p. 61).

<sup>48</sup> The information in this paragraph is derived from *ANARAM*, 22<sup>nd</sup> August 1983, p. 4.

to “holiday” as Hariri’s guest in southern France. Hariri then raised the issue at a meeting with Gemayel, while also conveying a message from King Fahd concerning the pending Israeli withdrawal in the Shuf mountains. The episode illustrates how Hariri managed to mix his role as “Saudi mediator” and his own business interests. After all, the CDR was the central agency in charge of reconstruction and awarding contracts such as the one for the northern littoral, which Hariri had secured.

Hariri was forced to abandon the three construction projects – the city centre, the northern littoral, and the southern suburbs – when Syria’s militia allies defeated the Lebanese army in West Beirut on 6<sup>th</sup> February 1984. The city centre became a battle zone again.<sup>49</sup> The Oger team withdrew to Paris to continue its planning activities. At the end of 1984, Oger presented a second plan for the southern suburbs but it was not implemented until after the war (Verdeil, 2001 p. 72). The national unity government of April 1984 included the pro-Syrian warlords Birri and Junblat. The state was subsequently “de-Kata’ibised” and agencies that had been Gemayel’s power base were dismantled.<sup>50</sup> The Ministry of State for the South was specifically created for Birri, who also gained the right to countersign all payments made by the CDR (Sayigh, 1994 p. 187). This marked the rising influence of Syrian-allied militia leaders in the Lebanese state. However, Birri and other militia leaders were less interested in dismantling the state but taking it over and restructuring it in their own interest, namely as a source of patronage resources. This logic ran counter to Hariri’s neoliberal logic of state restructuring in the post-war era, which centred on a “small” state that would ensure a friendly “business climate” to attract investors and make Lebanon “competitive” in a new Middle East. These competing logics and the struggle over state restructuring between Hariri and the militia leaders shaped the specific patterns of neoliberalisation of the Lebanese post-war economy, as explained in chapters 3 and 6.

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<sup>49</sup> *Al-Safir*, 25<sup>th</sup> January 1985, p. 5.

<sup>50</sup> *ANARAM*, 15<sup>th</sup> April 1985, p. 2.

## 2.5. Accepting Syrian dominance 1985-1990

### 2.5.1. International politics 1985-1990

The defeat of the Gemayel project in February 1984 represented a failure of US policy in Lebanon, which had been supported by Saudi Arabia. The next few years saw a shift in Saudi policy towards Syria, spearheaded by Hariri. The businessman came to accept Syrian predominance in Lebanon and supported Damascus' efforts at imposing a settlement on the country's warring parties, that excluded Syria's opponents in the country. This culminated in the 1989 Ta'if accord, which was made possible by a US-Syrian rapprochement brokered by Saudi Arabia. As discussed above, Hariri had been an important but junior player in the Saudi mediation efforts between 1983 and 1984. Senior princes and King Fahd held the reins of Saudi Arabia's Lebanon policy. This changed in 1984. US and Saudi top decision-makers turned their attention to the Iran-Iraq war. Hariri thus gained greater leeway for mapping the path of Saudi policy in Lebanon. This was also due to the declining influence of two other poles of Saudi influence in Lebanon. The Sunni za'im Sa'ib Salam was marginalised after the defeat of the Gemayel project. Salam was excluded from the "national unity" cabinet headed by Tripoli za'im Rashid Karami, assembled in April 1984. In 1985 Salam moved to Switzerland, leaving Rafiq Hariri as the most influential "Saudi man" in Lebanon.<sup>51</sup> The other pole of Saudi influence was the embassy in Beirut. The influential Saudi ambassador 'Ali al-Sha'ir had already been transferred back to Riyadh in April 1983. On 17<sup>th</sup> January 1984 the Saudi consul Hussain Farrash was kidnapped and throughout the summer of that year repeated protests and attacks by Shi'i groups such as Islamic Jihad prevented the re-opening of the Saudi embassy (Deeb, 1988 pp. 181-182).

The year 1985 saw the long and tortuous process towards the signing of the Syrian-brokered "militia agreement". With Gemayel sidelined, Hariri moved his centre of operations to Damascus:

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<sup>51</sup> Salam ally Muhammad Mashnuq says that Salam left three reasons: First, security, secondly, because he wanted to care for his wife, who was in ill health, and third, to allow his son Tammam greater leeway in developing as a politician in his own right. Interview with Muhammad Mashnuq, Beirut, 11<sup>th</sup> June 2008. Sa'ib's son Tammam continued the family's political tradition but never achieved his father's political weight.

“Hariri, however, sensing where the power was, spent more time in Damascus than in Beirut. In Damascus he could move freely and meet radical leaders who had offices in Damascus as well as in Beirut, and he hoped through Syrian influence to curb their activities.” (Salem, 1995 p. 180).

Hariri built up close relations with Syria’s vice-president ‘Abd al-Halim Khaddam, who was in charge of the “Lebanon file” and was putting together the “militia agreement”. The pillars of the tripartite agreement were to be Syria’s allies Birri and Junblat. What was missing was a Christian party to the accord. One of Hariri’s most important contributions to the militia agreement was to bring Elie Hubaiqa to the fold. Hariri is said to have paid Hubaiqa and the other parties large sums of money (Blanford, 2006 p. 29). Hubaiqa had previously been considered “Israel’s man”. His volte face in turning towards Syria cannot be explained with reference to Saudi financial inducements alone. The militia leader was also involved in a power struggle with other Christian leaders, namely his rival for the Lebanese Forces leadership, Samir Geagea, and President Amin Gemayel. Hubaiqa probably calculated – incorrectly – that an alliance with Syria would pave the way to dominance in the Christian sector. This suggests that Hariri’s cash was not decisive in winning over Hubaiqa but it ensured that Hariri – as a Saudi representative – was able to sit at the table when the post-war order was being hammered out. Much of the agreement was said to have been negotiated in Hariri’s flat in Damascus (Blanford, 2006 p. 29). The tripartite agreement was defeated in January 1986, when forces under the control of Geagea and Gemayel defeated the Hubaiqa loyalists. Syria had failed to impose a settlement on Lebanon. The period from 1986 to 1988 was one of stalemate in which Gemayel remained essentially a lame duck president, while Syria managed to deepen its control of Lebanon – for instance by redeploying troops to Beirut – but proved unable to impose a settlement. Only in 1989 and 1990 did the Assad regime marginalise all opponents to its dominance in Lebanon.

Another aspect of Saudi involvement in Lebanon at the time was its conflict with Iran. The two countries were engaged in an ideological contest in which a conservative monarchy was pitted against a revolutionary republic. Both appealed to Islamic ideology for legitimacy. Saudi support for Saddam Hussain’s war against the Islamic Republic and the kingdom’s invitation of the US navy to the Gulf to protect shipping from Iranian attack exacerbated tension (Chubin and Tripp, 1996). Lebanon became an

arena for the Saudi-Iranian conflict. As mentioned above, the kingdom was forced to close its embassy due to attacks by radical Shi'i groups allied with or at least sympathetic to the regime in Tehran. The extent of Hariri's involvement in Saudi Arabia's confrontation with Iran in Lebanon is unclear. Investigative journalist Bob Woodward claims that Saudi Arabia helped the CIA to carry out a bomb attack on Shi'i cleric Muhammad Hussain Fadlallah in March 1985 (Woodward, 2005 pp. 396-398). Fadlallah survived but 80 people were killed and 200 wounded. According to Woodward, Saudi Arabia denied any involvement and, as a decoy, provided Fadlallah with the details of the operatives who had carried out the attack.<sup>52</sup> Subsequently, Saudi Arabia offered Fadlallah US\$2 million in cash to act as an "early warning system" against attacks on Saudi and American facilities. Fadlallah is said to have accepted the payment in the form of food, medicine, and education expenses for some of his people. Hariri biographer Nicholas Blanford presents a different version. According to his informant, it was Hariri who offered the money to Fadlallah. In return, the cleric would help calm Shi'i unrest in Saudi Arabia's eastern province. According to Blanford's source, Fadlallah turned the money down, "suspecting a bribe" (Blanford, 2006 p. 65). The conflicting and unreliable accounts of investigative journalists shed little light on Hariri's exact involvement in the "intelligence politics" of the time. What is clear is that the philanthropic Hariri Foundation became a target for attacks. According to Blanford, Hariri's offices were attacked with rocket propelled grenade the day after he first met Fadlallah. Allegedly, Amal leader Nabih Birri wanted to discourage Hariri from preferring any Shi'i representatives over himself.<sup>53</sup> In May 1986, Hariri Foundation general secretary Fadl Shalaq was briefly kidnapped.<sup>54</sup> Throughout 1986, Hariri Foundation offices were attacked by unknown assailants.<sup>55</sup>

Gemayel's presidency was coming to an end in September 1988. The identity of the next president was the subject of intense diplomatic activity in the months before he

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<sup>52</sup> Deputy General Secretary of Hizballah Na'im Qassim identified a CIA-trained special unit of the Lebanese army as the perpetrators but does not mention any Saudi involvement (Qassem, 2007 pp. 182-184).

<sup>53</sup> The attack was reported in the Lebanese press. *Al-Safir*, 12<sup>th</sup> June 1985, p. 4.

<sup>54</sup> *Al-Nahar*, 30<sup>th</sup> May 1986, p. 5.

<sup>55</sup> Usually, the condemnation of attacks are reported, rather than the actually attacks. *Al-Safir*, 15<sup>th</sup> February 1986, p. 5. *Al-Safir*, 18<sup>th</sup> February 1986, p. 2.

was to step down. Hariri was in the middle of these efforts, but appears not to have played a central role. In this context, the then-Lebanese ambassador to the United States, 'Abd Allah Bu Habib (2007, pp. 175-177), relates a revealing episode about Hariri's money politics and his relations with King Fahd. In August 1987 Hariri suggested to Bou Habib that he would pay Amin Gemayel US\$30 million to hand over power to Johnny 'Abdu, the Lebanese ambassador to Switzerland. If Bou Habib would help convince Gemayel to step down, Hariri would send King Fahd to Damascus to win Assad's approval. Another US\$500 million would suffice to disarm the militias and get the Syrians to withdraw from Lebanon. 'Abdu and Gemayel later claimed they did not take Hariri's offer seriously at the time, while King Fahd was said to have been so incensed by Bu Habib's revelation that he refused to speak to Hariri for three months (Blanford, 2006 p. 33). Bu Habib's account makes Hariri look naively unaware about what money can and cannot achieve in Lebanese politics. It suggests that Hariri managed to buy access to decision-making processes but could not determine their outcomes. Money was an important interest of Lebanon's politicians and militia leaders but not necessarily the most important one. Secondly, the episode reveals the nature of the relationship with Fahd. Hariri would speak as "the voice of Fahd" but seems to have enjoyed great discretion over the means with which to pursue Saudi goals. As Elie Salem put it:

"Hariri had real power ... when Hariri was talking it was King Fahd talking. He would come up with ideas that were very forceful and say that this is what King Fahd wants. And what Fahd wants is what Hariri tells him. Fahd, of course, was not interested in the details."<sup>56</sup>

It is therefore hard to unpick what was Fahd's initiative, and what Hariri came up with himself, only gaining approval after the fact.

The deadline of Gemayel's term was preceded by frantic US-Syrian diplomacy but no consensus candidate was found. In the two months running up to the election, the Americans had sought Saudi help to find a compromise candidate and Hariri was vetting presidential hopefuls in Paris (Salem, 1995 pp. 260, 262). Within the last minutes of his presidency, Gemayel appointed army commander Michel 'Awn prime

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<sup>56</sup> Quoted by Blanford, 2006 p. 28.

minister and hence interim-president. The period between 1988 and 1990 saw competing administrations led by 'Awn and the rival Prime Minister Salim al-Huss, who enjoyed Syrian backing. The end to the civil war proceeded in two steps: first, the Ta'if conference in 1989, at which Syrian dominance in Lebanon was cemented and the confessional power-sharing formula was adjusted, and secondly, the Syrian military defeat of 'Awn in 1990. The end of the civil war thus represented Syrian success in marginalising its opponents in Lebanon. The process was based on US-Syrian rapprochement and an agreement on Lebanon, which was brokered by Saudi Arabia and built on Hariri's diplomatic efforts since 1985. Syria and the US had been moving closer to each other's positions since 1987, with Syria realising that the power of the Soviet Union was waning and Washington understanding that it needed Syria to realise its policy objectives in the Middle East, especially a negotiated Arab-Israeli peace agreement. Ta'if was "an agreement between, and managed by, the US and the Syrians through the Saudis" (Kerr, 2003 pp. 293-294). The Syrian regime had marginalised all opponents to its domination except for 'Awn but had so far proved unable to impose a settlement on Lebanon that would legalise Syrian domination. Ta'if promised just that as the parts dealing with Syrian-Lebanese relations bore great resemblance to the 1985 tripartite agreement (Kerr, 2003 p. 297). The end of the Cold War and of the Iran-Iraq War allowed the United States to turn its attention to the Lebanon conflict. The American aim was to put Syria in a position to regulate Hizbullah, the Shi'i militia that had developed an effective resistance capability to Israeli occupation in South Lebanon. Saudi Arabia saw Ta'if as an opportunity to achieve its long-term goal to include Syria in a conservative "consensus" solution to the Lebanese and the Arab-Israeli conflict.

In October 1989 an Arab League "troika" consisting of the kings of Morocco and Saudi Arabia and the Algerian president called on all surviving Lebanese members of parliament to assemble in the Saudi resort of Ta'if. Hariri was intimately involved in organising the conference and arranged for the deputies to be flown to the Saudi city (Blanford, 2006 p. 36). The Ta'if agreement consisted, firstly, of an adjusted power-sharing formula that strengthened the Sunni prime minister and the Shi'i speaker vis-à-vis the Maronite president. Secondly, it legitimised the presence of Syrian troops in

Lebanon. The troika had acquired Syrian approval of the agreement and presented it as a *fait accompli* to the deputies.<sup>57</sup> Hariri was deeply involved in liaising with Damascus and Washington and persuading the deputies to accept the agreement.<sup>58</sup> The deputies renegotiated some details of the power-sharing formula but its fundamentals were not altered. Saudi influence has been credited with achieving the strengthening of the position of the Sunni prime minister at Ta'if (Hanf, 1993 p. 588). Saudi Arabia thus helped shape Lebanon's constitutional reforms, which benefited Hariri once he became prime minister.

While 'Awn still claimed to be prime minister, and hence the legitimate acting-president of Lebanon, Saudi Arabia and Syria moved to elect a new one. Hariri was one of the driving forces behind the election of René Mu'awad, a traditional politician from the Syrian controlled north. On 5<sup>th</sup> November 1989 Hariri flew the deputies on his private aircraft to Quli'at airbase near the Syrian border, where they elected Mu'awad. The US, too, accepted Mu'awad. Hariri provided the president with an armour-plated Mercedes and offered him the use of his Oger building in Beirut (Blanford, 2006 p. 37). However, Mu'awad was assassinated in the same month. Within 24 hours a new president was elected by 53 deputies whom parliamentary speaker Hussain Hussaini gathered in a Syrian intelligence building in Shtura in the Biqa'. The new man was Iliyas Hrawi from Zahle who had accepted Syrian dominance and, moreover, was willing to confront 'Awn. Once again, Hariri's plane carried the deputies to the vote (Hanf, 1993 p. 596). Hariri provided Hrawi with living quarters and offices in an apartment bloc in Beirut and contributed to staff cost, accommodation, logistics, communications, armoured cars and security equipment (Iskandar, 2006 p. 60). The fact that the "Saudi man in Lebanon" supported the logistics of electing two presidential candidates who were ready to accept Syrian dominance in Lebanon and then contributed financially to

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<sup>57</sup> This account of Ta'if relies on Hanf (1993) and Kerr (2003), who both interviewed participants of the conference.

<sup>58</sup> The external aspect of the agreement, dealing with relations with Syria, had been agreed with Damascus and was non-negotiable. Hariri travelled to Damascus to run the new power-sharing formula past Assad. It was based on a paper agreed by Gemayel, Salem and Hariri in 1987 but had been rejected by Assad. (Salem, 1995 pp. 236-241; Kerr, 2003 p. 270; Hanf, 1993 pp. 589-590).

their expenses underlines the Saudi-Syrian understanding over Lebanon.<sup>59</sup> Hariri was already hoping to become prime minister and according to Syrian Vice-president 'Abd al-Halim Khaddam the Syrian regime was for the first time seriously considering him for the post (Blanford, 2006 p. 37).

'Awn rejected both Mu'awad and Hrawi but the general had failed to build bridges with the United States and now lacked international allies to confront the Syrians. This gulf became particularly acute when Iraq invaded Kuwait in August 1990. The general refused to break with Saddam Hussain, while Syria joined the US-led coalition against Iraq. In November 1990 Syrian jets bombed the presidential palace in Ba'abda, where 'Awn had been holed up. Assad could not have moved against the general had it not been for US approval.<sup>60</sup> 'Awn fled to the French embassy and finally went into exile in Paris, paving the way for Syria's unfettered domination of Lebanon. 'Awn's eviction from Ba'abda illustrates the extent of US-Syrian concord over Lebanon.

### 2.5.2. Political economy 1985-1990

The period between 1984 and 1990 was a highly dramatic time for the Lebanese economy. Lebanon's changing role in the capitalist world economy after 1975 and reduced militia funding and remittances after 1982 resulted in currency collapse and hyper-inflation. The period was not simply marked by conflicts between international powers and their proxies but also between different political and economic elites, which were seeking to create and capture rent in the civil war economy and to determine the patterns of rent-creation and –appropriation in the post-war order. This meant that Hariri engaged in conflict and cooperation with militia leaders, their

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<sup>59</sup> Hrawi was clearly "Syria's man as Lebanon's president" (Hanf, 1993 p. 595). Mu'awad's status is somewhat more ambiguous. He was elected with Syrian approval and "he was acceptable to the pro-Syrian forces because he had never left any doubt about his view that a settlement in Lebanon was only possible in agreement with Syria." (Hanf, 1993 p. 593) However, he alienated Syria by insisting on dialogue rather than violent confrontation with Michel 'Awn who still claimed the presidency for himself. There is therefore speculation that Syria assassinated Mu'awad (Hanf, 1993 pp. 590-595).

<sup>60</sup> The Israeli air-force did not react to the Syrian air-raid on Ba'abda, despite previous threats to do so. This was probably due to US pressure on the Israeli government (Hanf, 1993 p. 611; Kerr, 2003 p. 275).

business allies, and with technocrats in the Shihabist tradition. The different fault lines of Lebanese politics – international influences, sectarian politics, and political economy – influenced each other and shaped the behaviour of different types of elites.

Between 1982 and 1984 Hariri had tied his construction plans closely to the Gemayel project. Hariri's business interests were thus aligned with his diplomacy on behalf of Saudi Arabia. After the failure of the Gemayel project in 1984 Hariri had to abandon these projects. In 1984 Hariri came to accept Syrian dominance in Lebanon. Just as he was helping negotiate the militia agreement in Damascus in 1985, he started doling out financial benefits to Syria's militia allies. As mentioned above, Hariri paid Elie Hubaiqa to persuade him to join the militia agreement. There is also evidence that he supported the business interests and patronage vehicles of the militia leaders Walid Junblat and Nabih Birri. Junblat's Sibling cement company was having difficulties financing the completion of a cement works. Reportedly, Rafiq Hariri extended a loan to Sibling in November 1985 and he became a major shareholder in the company in 1987.<sup>61</sup> The loan was granted while the negotiations for the militia agreement were taking place. Rafiq Hariri also benefited Birri. An example is a loan of LL500 million extended to the Council of the South in July 1987 for road works in the West Biqa' and the south.<sup>62</sup> The council had been created as a patronage vehicle for Birri in 1984. These loans are examples of the way in which Hariri distributed financial benefits to Syria's allies in support of his diplomatic efforts. Other examples include payments to Lebanon's General Security directorate.<sup>63</sup>

At the same time as Hariri turned to Syria's allies, he entered into conflict with a conglomerate of business interests allied to Amin Gemayel and the Lebanese Forces militia. These Christian businessmen were opposed to the influx of Gulf capital personified by the new contractor bourgeoisie. The restructuring of the Lebanese banking sector since 1975 through the influx of militia money and investment by new

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<sup>61</sup> Henry Moore, 1987 p. 211. *ANARAM*, 8<sup>th</sup> November 1985, p. 10. Sibling company website, <http://www.scs.com.lb/templates/controls/contenttemplates.aspx?MenuID=2548>, viewed on 10<sup>th</sup> July 2009.

<sup>62</sup> *Al-Nahar*, 18<sup>th</sup> July 1987, p. 6.

<sup>63</sup> *Al-Nahar*, 5<sup>th</sup> December 1987, p. 5.

contractors meant that the confessional ownership of the largest banks had changed. Henry Moore calculates roughly that in 1974, 62% of lending of the top-15 banks came from banks with Christian majority ownership, 18% from “non-Christians”, with the rest being “indeterminate”. By 1982, lending by “Christian-owned” banks was down to 47% of total lending, the share of “non-Christian” banks had risen to 36%, while indeterminate banks stood at 17% (Henry Moore, 1987 p. 214). The established “Christian” bourgeoisie had lost its influence during the civil war. Kata’ib and the Lebanese Forces were trying to restore their sect’s dominance in the economy. This did not benefit the pre-war bourgeois families but businessmen linked to Kata’ib and the Lebanese Forces militia. The most prominent business ally of Amin Gemayel was Roger Tamraz. He spearheaded Gemayel’s attempt at extending his influence in the Lebanese economy and actively confronted Gulf interests in Lebanon. Tamraz had been a consultant during the restructuring of the failed Intra Bank in 1966. In August 1983 Gemayel ensured Tamraz’s appointment as chairman of Intra Invest, the holding company that had taken over the bank. Tamraz was not opposed to Gulf investment in principle – he himself had allied with Saudi investors in the past (Hourani, 2010 p. 302) – but anti-Gulf sentiments were a convenient way of excluding competitors. Gulf investors had rescued the bank in 1966 and gained great influence in return. Kuwait took a stake of about 24% of Intra’s shares, while Qatar held 4%.<sup>64</sup> Tamraz proceeded to marginalise Gulf interests in the holding company and also alienated shareholders from the pre-war bourgeoisie.<sup>65</sup> Tamraz went on a buying spree using Bank al-Mashriq as the main vehicle to extend control over large parts of the Lebanese economy.<sup>66</sup> At the same time as Tamraz expanded Intra’s influence he made it unaccountable to its shareholders.<sup>67</sup> Intra became “part of the Phalangist [i.e. Kata’ib] infrastructure”.<sup>68</sup> Especially Tamraz’s attempts at gaining control of Lebanese flag carrier Middle East Airlines drew the wrath of his opponents.

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<sup>64</sup> ANARAM, 6<sup>th</sup> May 1985, p. 1.

<sup>65</sup> Representatives associated with traditional families also resigned from the board in May 1984. They were Fu’ad Buhsali, Robert Sursuq, and Khaldun Subra (Dib, 2004 p. 231). Intra also lost its line of credit with Robert Sursuq’s bank after he had left the board in 1983. ANARAM, 23<sup>rd</sup> July 1983, p. 2.

<sup>66</sup> ANARAM, 23<sup>rd</sup> July 1983, p. 2. ANARAM, 29<sup>th</sup> April 1985, p. 5. MEES, 13<sup>th</sup> January 1986, p. B4-5.

<sup>67</sup> ANARAM, 12<sup>th</sup> September 1986, p. 11.

<sup>68</sup> ANARAM, 10<sup>th</sup> December 1984, p. 4-5.

The beginning of 1985 marked not only the beginning of Hariri's drift to Damascus but also saw an intensification of economic conflict between Hariri and Gemayel. In January the chairman of one of the Hariri banks officially announced the cessation of reconstruction projects in the city centre and the southern suburbs, complaining about the unhelpful stance of the Gemayel government.<sup>69</sup> In February 1985 Saudi Arabia reportedly used the slide of the Lebanese pound to pressure Gemayel. The currency had crashed from LL8.89 per US dollar at the end of December 1984 to LL11.72 at the end of January. In February, Hariri offered Saudi aid of US\$500 million to Gemayel but reportedly imposed two conditions:<sup>70</sup> The removal of Roger Tamraz from Intra, and the repeal of a legislative decree issued by President Gemayel in October 1983, which prohibited foreign investors to hold more than 49% of Lebanese Banks.<sup>71</sup> The latter measure was designed to curtail the influence of Gulf investors in Lebanese finance. By the end of February the pound had further deteriorated to LL16 to the US dollar and Saudi aid had not actually been disbursed.

The context of these political battles was the collapse of the Lebanese currency. The exchange rate had remained relatively stable until 1984 but then dropped from LL5.89 to one US dollar in May 1984 to around LL500 in 1989. Because of the expulsion of the PLO in 1982, the amounts of militia money flowing into Lebanon declined markedly.<sup>72</sup> The end of the oil boom in the Gulf reduced the number of Lebanese migrants there to 65,000 in 1987 and remittances declined to an estimated US\$300 million, while demand for Lebanese exports also declined (Nasr, 1989 p. 47). The large trade deficit could no longer be offset by capital inflows. At the same time the government budget was in constant deficit: militias controlled the ports and the state could not recover customs revenues, while government expenditure remained high due to continued salary payments, weapons purchases by Gemayel, and ministers using their office for patronage.

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<sup>69</sup> *Al-Safir*, 25<sup>th</sup> January 1985, p. 5. *ANARAM*, 28<sup>th</sup> January 1985, p. 3.

<sup>70</sup> *MEES*, 11<sup>th</sup> March 1985, p. B1. *ANARAM*, 4<sup>th</sup> March 1985, p. 6.

<sup>71</sup> *ANARAM*, 10<sup>th</sup> October 1983, p. 8. *ANARAM*, 7<sup>th</sup> November 1983, p. 7.

<sup>72</sup> The importance of these funds is illustrated by the brief resumption of PLO inflows in 1985, which pushed up the Lebanese currency. PLO financing for clashes with Amal were estimated at US\$300-350 million. This pushed up the value of the Lebanese pound from LL19 per US dollar to LL15.20 between April and July 1985 *ANARAM*, 19<sup>th</sup> December 1986, p. 6.

These structural conditions were the underlying cause of the currency collapse but speculation played a big role in the dynamics of decline. The balance of payments account illustrates the large degree of speculation, with most of the capital account falling under the rubric of errors and omissions (see appendix 1). An IMF report in 1988 held that such speculation was welcome because it helped establish the market price (Towe, 1988). However, as Gaspard shows, the timing of individual episodes of currency devaluation can only be explained with reference to coordinated rounds of speculation by key investors (Gaspard, 2004 pp. 202-207). Lebanese banks faced strong incentives for speculation. Their traditional business of providing letters of credit for the import trade had collapsed, investment in agriculture and industry remained unattractive and banks were burdened with bad loans.<sup>73</sup> Coordinating speculation against the Lebanese pound was relatively easy. The banks used loans to create the pound liquidity required to buy US dollars. If a declining currency was a safe bet, then profits could be realised by selling foreign currency holdings and repaying the original loan. The dollar counterpart to this speculation was provided by central bank intervention in the foreign exchange market and liquidation of foreign asset holdings by Lebanese (Gaspard, 2004 pp. 202-203). Although most Lebanese participated in this game and speculation became something of a national sport, the main beneficiaries were the members of the cartel that was driving the speculation. Ordinary Lebanese saw the value of their Lebanese pound-denominated savings and their salaries and wages wiped out.

What is important for understanding Hariri's role in the collapse and in post-war currency revaluation is the sociology behind the three institutional actors in the collapse: the government, the central bank, and the commercial banks. The banks were owned by the pre-war bourgeoisie, allies of the militia leaders, and new contractors. The government was dominated by *zu'ama* and militia leaders. And the central bank was run by technocrats in the Shihabist mould, although their autonomy was increasingly being undermined. The central bank tried to rein in speculation using

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<sup>73</sup> ANARAM 30<sup>th</sup> April 1984, p. 2-6. ANARAM, 4<sup>th</sup> January 1986, p. 20.

two mechanisms: Firstly, the sale of treasury bills to “mop up” liquidity in Lebanese pounds, reducing the currency available for speculation. At times, banks flatly refused to buy T-bills, showing they were more powerful than the central bank.<sup>74</sup> The second mechanism was an increase in reserve requirements and a reduction in the value of foreign capital positions that banks were allowed to hold.<sup>75</sup> In response, Lebanese banks simply shifted their currency trading abroad, speculating with funds held in offshore accounts that were known as the “Europound market” (Gaspard, 2004 pp. 203-204).

The governors of the central bank can broadly be identified as operating within the Shihabist tradition. Michel al-Khuri (1978-1984) was both from a notable family – his father was Lebanon’s first president Bishara al-Khuri – and was considered a “Shihabist”, having been appointed governor by Shihabist president Iliyas Sarkis (Dib, 2004 p. 224). Khuri defended the independence of the central bank at several occasions and was critical of the Tamraz empire and Gemayel’s profligate spending on arms purchases from Western countries.<sup>76</sup> His successor Edmond Na’im was a less independent figure. He was appointed in 1985 and was a compromise candidate between Gemayel’s camp and the militia leaders – including Junblat and Birri – who were sitting in the “national unity government” (Dib, 2004 p. 231). Despite claims that Na’im lacked sufficient banking competence and charges that he was too close to the militia leaders, the central bank continued its attempts to rein in speculation.<sup>77</sup> Eventually, the central bank confronted the Tamraz empire, refusing to bail out the failing Bank al-Mashriq in 1988.

Khuri went on to build an alliance with Rafiq Hariri. According to ‘Abd Allah Bu Habib, Hariri promoted Khuri’s candidacy to succeed Gemayel as president in the summer of 1988 (Bu Habib, 2007 p. 178). The cooperation represented an alliance between a Shihabist technocrat from a notable family with the prime representative of Gulf

<sup>74</sup> *ANARAM*, 30<sup>th</sup> April 1984, p. 2-6. *ANARAM*, 19<sup>th</sup> July 1985, p. 2-3. *ANARAM*, 17<sup>th</sup> December 1984, p. 6. In March 1986, subscription to T-bills became compulsory (Makdisi, 2004 p. 72).

<sup>75</sup> *MEES*, 24<sup>th</sup> August 1987, p. B1. *MEES*, 26<sup>th</sup> October 1987, p. B4. (Makdisi, 2004 p. 196)

<sup>76</sup> *ANARAM*, 23<sup>rd</sup> July 1983, p. 2. (Dib, 2004 p. 224)

<sup>77</sup> *ANARAM*, 21<sup>st</sup> January 1985, p. 3. Corm, 2005 p. 208.

capital. Hariri explained Khuri's appeal thus: "Shaykh Michel is the son of a former president; he is congenial and smart; people respect him for that and even the Syrian vice-president 'Abd al-Halim Khaddam wears his blue suit when he meets him" (Bu Habib, 2007 p. 178). Khuri returned to the post of central bank governor between 1991 and 1993 and was considered Hariri's man (Wakim, 2006 p. 51). Under Khuri's watch the central bank embarked on the policy of over-borrowing on behalf of the government, driving up interest rates and thus shielding the currency from speculators – an achievement that had eluded him in the 1980s. This policy lay at the heart of the most important rent-creation mechanism of the post-war economy, as discussed in chapters 3 and 6.

## 2.6. Hariri's philanthropy

The chapter so far examined the level of international politics and Lebanon's changing political economy. Rafiq Hariri was part of a new contractor bourgeoisie from the Gulf. What distinguished Hariri from other new contractors was the support he enjoyed from King Fahd. Having proven his political usefulness to the monarch during the clean-up of 1982, Hariri went on to become a "Saudi mediator" between different warring parties in Lebanon. However, Hariri also started engaging in clientelist politics. The Hariri Foundation ran a student loan programme which benefited roughly 32,000 young Lebanese between 1983 and 1996 (Hariri Foundation, 2004 p. 12). Hariri presented the programme as completely non-political.<sup>78</sup> Yet philanthropy was highly political in Lebanon. In the absence of effective state provision of education and health services most Lebanese relied on charities for access to such services. Lebanese politicians used philanthropy as patronage. They sought to control existing charities or build their own ones. Charity tended to run along confessional lines, both because local associations were providing for their confessional community and because politicians represented "their" community. Schools in particular tended to recruit among their co-religionists. Philanthropy thus had several political effects: a political-economic effect of material exchange between patron and client and a cultural effect

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<sup>78</sup> For instance in a TV interview with Marwan Iskandar. *Al Safir*, 21<sup>st</sup> June 1983, p. 5.

of reproducing sectarian identity. Because of this linkage of political economy and political culture, philanthropy is an arena in which it is possible to turn “economic power” into “symbolic power”, the power to confirm or transform the vision of the social world, of maintaining or subverting the social order (Bourdieu, 1991 p. 170). This is exactly what Hariri did in his philanthropy.

The particular shape and political logic of Rafiq Hariri’s philanthropy has to be analysed in terms of his position as a “new contractor” and Saudi client. In order to illustrate the way in which Hariri’s position shaped his philanthropy, the Hariri Foundation of the 1980s will be contrasted with a more established association controlled by Sa’ib Salam. He was the most important political representative of Beirut’s Sunni bourgeoisie and president of the Maqasid association, which ran several schools, health centres, and a hospital in Beirut. The two main differences between the Hariri Foundation and Maqasid were, firstly, that the Hariri Foundation made a claim to non-sectarian recruitment while Maqasid was a self-consciously Sunni Muslim association and, secondly, that the Hariri Foundation eschewed the sustained grassroots mobilisation of recipients that Maqasid pursued. It was not until the late 1990s that the two charities came to directly compete against each other.

Maqasid had been founded in 1878 and was run by Beirut’s Sunni Muslim notables. The Maqasid helped safeguard the notables’ status as leaders of the city’s Sunni community. By the 1950s it had become a political instrument for Beirut za’im Sa’ib Salam (Johnson, 1986; Schatkowski, 1969). The association’s financing was deeply embedded in the pre-war economy: the bulk of its income came from return on real-estate investment and school fees levied on the expanding Sunni middle class. Sa’ib Salam enjoyed a great deal of discretion in using jobs, free schooling, and healthcare as patronage resources. However, the clientelist practices of Maqasid also provided a vehicle with which to “imagine” the community that was “Sunni Beirut”. Philanthropy and the ability to ensure the collective betterment of the community was central to Salam’s claim of being a specifically Sunni leader. This clientelism was grounded in extensive social networks, with relations between za’im and followers mediated by the

strongmen of the quarter. Philanthropy was thus central to maintaining social hierarchy, with the city's notables-turned-bourgeoisie at the top. The whole system of legitimation was based both on the political economy of clientelism and the narratives and discourses of sectarianism.

Hariri's earliest charitable work in Lebanon was the establishment of the Islamic Institute for Culture and Higher Education in Sidon in 1979. Run by Hariri's sister Bahia, the association started giving scholarships, albeit on a small scale. It provided loans for 176 students in higher education between 1979 and 1981 (Hariri Foundation, 1992 p. 23). The aim of the foundation was the spread of knowledge and education "in Lebanese Islamic society in general and in Sidon in particular".<sup>79</sup> Yet Hariri also seems to have been genuinely interested in going beyond the confessional patronage which was the norm in Lebanon. He started building an educational and health centre in the village of Kfar Fallus in cooperation with the Jesuit-founded St. Joseph University (USJ) as well the American University of Beirut (AUB) and the English-language International College.<sup>80</sup> The complex was consciously placed at an intersection of areas where different confessional groups were concentrated, "a meeting point for all the Lebanese family".<sup>81</sup> It was within easy reach for Sunni, Shi'i and Christian populations in Southern Lebanon. Kfar Fallus was damaged by the Israeli invasion in 1982. It was eventually destroyed by the Lebanese Forces and the Israeli proxy-militia under General Antoine Lahd in 1985, which aimed at cementing homogeneous sectarian "cantons". The destruction provoked strong protests from the president of St. Joseph.<sup>82</sup>

The scale of Rafiq Hariri's philanthropy increased exponentially after the Israeli invasion of 1982. As discussed above, the circumstances of the invasion allowed the

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<sup>79</sup> According to Salwa Ba'siri, leading employee and sister of Fu'ad Siniura. *Al Safir*, 17<sup>th</sup> October 1985, p. 7. The original focus on "Islamic society" was toned down in later publications of the Hariri Foundation, which stated: "The work [of the Islamic Institute for Culture and Higher Education] was carried out regardless of political or sectarian affiliation" (Hariri Foundation, 1992 p. 23)

<sup>80</sup> It included a medical centre, a vocational and a nursing school, a sports centre, and a studies centre for engineering (Hariri Foundation, 1992 pp. 25-33).

<sup>81</sup> Interview with Mustafa Za'tari, Beirut, 31<sup>st</sup> January 2008.

<sup>82</sup> *Al Safir*, 23<sup>rd</sup> May 1985, p. 4.

businessman to assume an important diplomatic and economic role in Lebanon: he started acting as a “Saudi mediator” from autumn 1983 onwards and engaged in three construction projects in Beirut with the support of President Amin Gemayel. The launch of the Hariri Foundation student loan programme has to be seen in the framework of Hariri’s activism in Lebanese politics and the economy. As such, the programme was not simply an act of selfless charity but also followed a political rationale. In the spring of 1983, Rafiq Hariri charged Fadi Shalaq, who had overseen the clean-up of Beirut in September 1982, with putting together a student loan programme.<sup>83</sup> In June 1983 Hariri first started promoting his philanthropy publicly in a TV interview. The interview was clearly a publicity stunt: a taped version was passed on to Lebanon’s Central News Agency without the knowledge or permission of the TV producer or company.<sup>84</sup> Hariri’s very public foray into philanthropy was part of a bid for the post of prime minister. As an outsider to the political scene, the dramatic gesture of providing education to thousands of students was bound to increase Hariri’s stature. By October 1983, Hariri was being considered as a possible candidate for the post.<sup>85</sup>

Hariri Foundation representatives consistently claimed that it was open to Lebanese from all sects and regions and that no “wasta” (intercession) was needed to obtain a loan.<sup>86</sup> The foundation sought to project an image of rational planning rather than sectarian favouritism. Applicants were assessed in exams put together and administered by AUB.<sup>87</sup> The dates of these exams were published in national newspapers.<sup>88</sup> In preparation of the student loan programme, Shalaq’s team of experts toured the country and surveyed the obstacles that would-be university students were facing: lack of personal funds, lack of foreign language skills, and a preference for

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<sup>83</sup> *Al Safir*, 17<sup>th</sup> October 1985, p. 7.

<sup>84</sup> *Al Safir*, 21<sup>st</sup> June 1983, p. 5.

<sup>85</sup> After the Geneva Conference, Foreign Minister Elie Salem suggested that Hariri be made PM. Salem claims that President Gemayel was not opposed to the idea but did not want to go through the protracted bargaining associated with changing the PM (Salem, 1995 p. 130).

<sup>86</sup> For instance, in an interview with Marwan Iskandar, Hariri said he did not want to favour one group over the other. *Al Safir*, 26<sup>th</sup> June 1986, p. 5. Rafiq Hariri to *Al Safir*, 28<sup>th</sup> November 1984, p. 7. Fadi Shalaq to *Al Safir*, 18<sup>th</sup> January 1985, p. 7.

<sup>87</sup> “Supplemental Agreement IX (Renewal) Between The American University of Beirut And The Hariri Foundation For Student’s Evaluation Testing”, 18<sup>th</sup> September 1986, American University of Beirut/Library Archives, AA:2.5.6.2, Career Guidance Center 1991 – 1997.

<sup>88</sup> *Al Safir*, 16<sup>th</sup> April 1986, p. 7.

prestigious courses such as medicine and engineering that far outstripped the demand in the labour market.<sup>89</sup> Based on this initial survey, the Hariri Foundation paid AUB and other centres in Lebanon and abroad to provide language training and to establish a career guidance centre. The Hariri Foundation put a strong emphasis on “Western” education. Hariri Foundation general director Shalaq explained that the foundation wanted students to obtain culture “from its truthful source, and this source is today in the European West and in America and Canada”.<sup>90</sup> Cost considerations meant that the original policy of sending two-thirds of Hariri Foundation students abroad – primarily to North America and Europe – had to be abandoned.<sup>91</sup> By 1989-90, slightly less than three quarters were studying in Lebanon.<sup>92</sup> Yet the focus remained on a “Western education”: the American University of Beirut and the English-language Beirut University College – later to become the Lebanese American University – were the Lebanese institution with the highest number of Hariri Foundation students. The Hariri Foundation’s claim to non-sectarian recruitment as well as its commitment to English-language education stood in contrast to Maqasid policy. Maqasid was self-consciously geared towards educating Beirut’s Muslims.<sup>93</sup> Its directors were drawn from among Beirut’s Sunni notables and its president, Sa’ib Salam, laid claim to being the leader of Sunni Beirut (Johnson, 1978 pp. 75, FN 45). In the 1980s Maqasid turned towards the promotion of the Arabic language, which came to be used in teaching maths and sciences (Terc, 2006 p. 441). With its turn towards Arabic language teaching, Maqasid took the opposite direction as the Anglo- and Francophone Hariri Foundation.

Despite repeated claims that the student loan programme selected students regardless of confession and regional background and that no “wasta” was required, recruitment clearly followed a sectarian logic. When Hariri charged Shalaq with setting up a programme to help Lebanese students in March 1983, the businessman asked

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<sup>89</sup> *Al Safir*, 17<sup>th</sup> October 1985, p. 7.

<sup>90</sup> *Al Safir*, 17<sup>th</sup> October 1985, p. 7.

<sup>91</sup> *Al Safir*, 28<sup>th</sup> November 1984, p. 7.

<sup>92</sup> *Al Safir*, 21<sup>st</sup> September 1986, p. 7. (Hariri Foundation, 1992 p. 212).

<sup>93</sup> The current president of the Maqasid, Amin Da’uq, maintained that Christians used to attend Maqasid schools prior to the civil war. Interview with Amin Da’uq, Beirut, 30<sup>th</sup> January 2008. However, the proposed 1968 constitution said explicitly that Maqasid offered education for “Muslim children” (Schatkowski, 1969 p. 65). Johnson is also under the impression that schools were confined to Muslim children (Johnson, 1978 p. 57).

Shalaq to “concentrate on Muslim students” but also told him: “And who comes from the Christians, take him without hesitation.” (Shalaq, 2006 p. 158). Shalaq’s memoirs and various newspaper reports about the Hariri Foundation suggest that students were primarily recruited with the help of Sunni Muslim religious and social organisations. When the programme started recruiting students, Shalaq asked the shaykhs of north Lebanon’s ‘Akkar region to publicise the Hariri Foundation student loans in their Friday prayers (Shalaq, 2006 pp. 170-171). In the Western Biqa’, too, the Hariri Foundation appears to have recruited through local shaykhs.<sup>94</sup> In Sidon and Southern Lebanon, the Hariri Foundation recruited students through Hariri’s own Islamic Institute of Culture and Higher Education (Shalaq, 2006 p. 169). In Tripoli, the Hariri Foundation worked with the Association of Islamic Youths and other Sunni Muslim organisations.<sup>95</sup> ‘Akkar, Tripoli, Sidon, and the Western Biqa’ are all predominantly Sunni Muslim areas of Lebanon. Christians were not excluded from applying to the Hariri Foundation but it was simply much easier for Sunni Lebanese to access it. Hariri’s initiative of opening an office at St Joseph University in East Beirut only partially changed the scales but was a symbolic gesture towards the claim to non-sectarian recruitment.<sup>96</sup> Staff at the Hariri Foundation was predominantly Sunni Muslim and drawn from the peripheral regions of Lebanon (Khashan, 1992 p. 269) – most prominently Fadl Shalaq himself, as well as Salwa B’asiri, the sister of Fu’ad Siniura. By 1985, the number of staff had grown from 4 to 70.<sup>97</sup> Professionalism seems to have suffered from expansion. By 1990, a survey of 400 Hariri Foundation students at AUB recorded 84.5% of respondents complaining that they had received unprofessional services from the foundation’s staff (Khashan, 1992 p. 269).

Although the majority of Hariri Foundation aid recipients appear to have been Sunni Muslim students, it is noteworthy that members of other sects also benefited from student loans to a considerable degree. Yet paradoxically, the mechanisms by which

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<sup>94</sup> *Al Safir* 3<sup>rd</sup> June 1985, p. 7. *Al Safir*, 27<sup>th</sup> July 1985, p. 5.

<sup>95</sup> The association sent 64 students to European and American universities with Hariri Foundation support at the turn of 1984-1985. *Al Safir*, 27<sup>th</sup> December 1984, p. 7. *Al Safir*, 27<sup>th</sup> February 1985, p. 7. See also Shalaq, 2006 p. 170.

<sup>96</sup> The location of Hariri Foundation offices are from an interview with Mustafa Za’tari, Director General of the Directorate of Education, Hariri Foundation, Beirut, 31<sup>st</sup> January 2008. A reference to the Biqa’ office of the foundation can be found in *al-Safir*, 19<sup>th</sup> January 1985, p. 7.

<sup>97</sup> *Al Safir*, 17<sup>th</sup> October 1985, p. 7.

non-Sunni students received loans actually bolstered non-Sunni sectarian leaders. The best quantitative assessment of the beneficiaries of the Hariri Foundation is Hilal Khashan's survey of 400 recipients of student loans at the American University of Beirut (AUB), conducted between October 1990 and January 1991 (Khashan, 1992). Khashan found that 62% of respondents were Sunni, compared to 18% Shi'i, 11% Druze and 10% Greek Orthodox.<sup>98</sup> There were no Maronite Christian respondents in Khashan's study, probably because travelling to predominantly Muslim West Beirut to attend AUB was simply too dangerous for these students. Only 31% of respondents told Khashan that their application had been processed "on its own merits", while 69% said that it had been processed "through a connection". This belies Shalaq's assertion that the Hariri Foundation did not work through "wasta" (intercession). Khashan (p. 266) cites an interview in 1991 with an unnamed Hariri Foundation official:

"Political scholarship applications have priority over regular applications: The former are processed favourably and expediently. Community leaders, influential businessmen, friends and acquaintances also press top Hariri officials to consider their requests. More often than not, Hariri officials acquiesce to pressures placed on them. On one occasion, a community leader imposed upon the Foundation a list of 400 applicants after the application deadline."

Of those students who had used intercession, 40% said that a political leader had helped them, while another 40% cited a militia leader as the contact. What is interesting is the way that the different confessional groups applied. A slight majority (55%) of Sunni recipients said that they had used contacts, while the corresponding number reached around 90% among all other confessional groups. Non-Sunnis thus almost exclusively relied on "wasta". Sunni students also performed at a higher academic standard than their non-Sunni counterparts, suggesting that their selection had been more oriented on academic criteria. In short, non-Sunni students tended to receive Hariri Foundation scholarships through intercession by militia leaders or politicians from their sect.

The evidence thus suggests the following pattern: The student loans of the Hariri Foundation benefited primarily but not exclusively Sunni Muslim students from poor peripheral regions of Lebanon, often recruited through religious charities or mosques.

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<sup>98</sup> The figures do not add up due to rounding.

Non-Sunni students tended to gain acceptance through intercession by their community's militia leaders or politicians. In some ways, it is hardly surprising that Hariri recruited mainly Sunni Muslim students: He started his foundation in the midst of a sectarian civil war, pre-existing personal networks of the staff made it easier to recruit from Sunni communities, and leaders from other communities would have eyed Hariri's attempt to serve "their" community as an infringement. However, none of this explains Hariri's insistence towards Shalaq to "concentrate on Muslim students". The sectarian pattern of Hariri Foundation aid therefore requires first and foremost a political explanation.

The starting point for unpacking the political logic of the Hariri Foundation student loan programme is Hariri's overall strategy for expanding his economic and political influence after the Israeli invasion of 1982. As Elie Salem's memoirs reveal, Hariri was already being thought of as a possible prime minister. This was almost certainly not incidental but was part of a conscious strategy cultivated by Hariri, in which the student loan programme played an important role. Support from the political, social, and religious leaders of the Sunni community was indispensable for becoming Prime minister because it was the highest political position open to a member of the community. Distributing student loans via Sunni social and religious organisations was a means of drawing these organisations into a loose clientelist network. Rather cleverly, however, Hariri expanded his network in a way that was not threatening established communal leaders. Politicians maintained their clientele by offering health services and schooling as well as a host of other services, for instance jobs or welfare payments. With the notable exception of Sidon, Hariri chose not to compete directly against established Sunni leaders but offered a service few of them were able to provide and none of them could offer on such a grand scale: financial support for university study. Hariri's relationship with the Maqasid association is indicative here. Rather than opening health centres or schools in Beirut or providing student loans in competition with the charity run by Tammam Salam, Hariri helped finance the

Maqasid's own university scholarship programme.<sup>99</sup> Hariri had gained access to the leading group of Sunni politicians by virtue of his close relations to King Fahd. By drawing Sunni social and religious organisations into his clientelist net, Hariri was laying the groundwork for eventually assuming the highest political post reserved for a member of his community.

From this perspective, Hariri's focus on Sunni Muslims was primarily instrumental rather than evidence of a "sectarian mindset". However, the promotion of Sunni students can also be interpreted as a challenge to the political and economic dominance of Christians in Lebanon. Greater educational achievement within the Christian community was a means of perpetuating its dominance. The Hariri Foundation was of course not the first Sunni association that was trying to raise educational levels in the community. The establishment of Beirut's Maqasid association in 1878 had been an attempt at providing a "modern" secondary education to the city's Muslims in order to compete with Christians more effectively (Schatkowski, 1969 pp. 29-32). While the Maqasid was an attempt by Beirut's Sunni notables to make the city's Muslim population fit for confessional competition in the modernising Ottoman state, Hariri's student loan programme can be interpreted as an attempt at making Lebanon's Sunni Muslims fit for confessional competition in a globalised economy. Whether this was Hariri's thinking or not is impossible to prove but Hariri's efforts were certainly interpreted in this way.

If Hariri was trying to reap the political benefits of supporting Sunni students, why did he deny that his foundation followed a sectarian logic? When the Maqasid was founded in 1878, Beirut's Sunni notables felt justified in pursuing a sectarian path to education provision. This sectarianisation of education was itself an important part of the gestation of the modern sectarian system in Lebanon (Schatkowski, 1969 p. 29). By 1983, however, civil war and militia violence had discredited sectarianism. Hariri's claim to non-sectarian aid was therefore a means of distinguishing his philanthropy

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<sup>99</sup> The Sa'ib Salam Foundation provided Maqasid scholarships and received LL1 million from Hariri in 1984 and LL1.5 million in 1985. *Al-Safir*, 13 July 1984 p. 7; *Al-Safir*, 21 June 1985, p. 6.

from the sectarian violence of militia leaders and inefficiency of zu'ama patronage. Hariri was trying to have his cake and eat it, to clientelise Sunni communal leaders and at the same time to be above sectarian politics. This inherent contradiction in Hariri's attitude towards sectarianism persisted throughout his political career. The source of Hariri's funding enabled him to embrace a non-sectarian discourse. The contrast with the Maqasid association is once again instructive: it had been founded by Beirut's Sunni notables and its financing depended on the privileged position of the city's Sunni bourgeoisie. As such, it had to reflect the confessional outlook and also the ideological proclivities of Beirut's Sunni community, especially during the phase of Nasserite mobilisation. In contrast, the Hariri Foundation was financed by King Fahd. At times, Hariri was in charge of directly distributing the Saudi King's charitable donations to the Lebanese.<sup>100</sup> Running the foundation was hugely expensive and one newspaper report put the cost at between US\$30-40 million annually to pay for 12,000 students.<sup>101</sup> The share of Hariri's personal wealth and Saudi financing for the Hariri Foundation is unclear but King Fahd's support was acknowledged at several points.<sup>102</sup>

Khashan's study suggests that non-Sunni students who received support from the Hariri Foundation had used intercession from militia leaders or politicians of their sect. This had a paradoxical effect: the cross-confessional element of Hariri Foundation aid actually strengthened the sectarian militia leaders and politicians from which Hariri was trying to distinguish himself. Hariri may not have had a choice. The allocation of student loans may have been a form of protection money paid to hostile militias. Alternatively, the Hariri Foundation may simply have been unable to convince suspicious Christians, Shi'i and Druze to apply to a "Sunni" foundation, while non-Sunni communal leaders would have seen Hariri as a threat to their position had he tried to circumvent them. However, once again there is likely to be a deeper political reason: Hariri's main means to influence the diplomacy of the civil war was the provision of

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<sup>100</sup> An example is food aid provided by the kingdom in 1988. *Al Nahar*, 6<sup>th</sup> January 1988, p. 4.

<sup>101</sup> *Al-Safir*, 8<sup>th</sup> January 1986, p. 7.

<sup>102</sup> Fadl Shalaq publicly praised King Fahd's patronage. *Al-Safir*, 18<sup>th</sup> January 1985, p. 7. A book publicising the Hariri Foundation was dedicated to King Fahd: "To the Custodian of the Two Holy Mosques, Fahd Ben Abdul Aziz Al-Saud, King of Saudi Arabia, in recognition and gratitude for his limitless generosity." (Hariri Foundation, 1992)

financial benefits to militia leaders, politicians, and members of the Syrian regime. Allocating quotas of student loans was one form of benefit.

The political rationale of the student loan programme is thus clear, but it also chimes with Hariri's personal experience. In secondary school Hariri benefited from a scholarship by Sidon's Maqasid association (Blanford, 2006 p. 14). Hariri had emigrated to Saudi Arabia in 1964 because he was unable to finance his studies. His activism with the Arab Nationalist Movement is said to have imbued him with a deep concern for social issues. The creation of an enormous loan programme for students who would otherwise be unable to pursue higher education must have filled Hariri with a great sense of personal satisfaction. The fact that it also furthered his political agenda is unlikely to have reduced this sense of satisfaction. As Fadl Shalaq put it, talking about Hariri's motivation for setting up the student loan programme:

“Like any good person. There are selfish reasons, altruistic reasons, political reasons. He liked the big bang: he comes into Beirut, he cleans the whole city. He liked big projects, he had big ambitions. So I know that in 84 he told me: ‘you just put anybody who finished high school into university.’ That’s what I did. Why did he do it? It’s a mission. Because he grew up in a poor family. He never forgot his roots. So he felt he had an obligation. Of course this satisfied his political ambition. So if you are a sceptic you say he did it for political reasons. If you are a believer in Hariri, you say it was because he was a good person. I think it was because he was a good person. I don’t say he was a saint but I don’t think anybody else can do such a dear thing.”<sup>103</sup>

What is noteworthy about Hariri's financial support for higher education in Lebanon is his focus on the most “prestigious” institutions. As mentioned above, the Hariri Foundation sent its students primarily to Europe and North America, and to English- and French-speaking universities in Lebanon itself. Hariri played a central role in saving the American University of Beirut during a crisis in the 1980s. Hariri's alma mater, the Beirut Arab University founded by Jamal 'Abd al-Nasr, did not receive the same attention from Hariri. With the “uprising” against Amin Gemayel in February 1984, militias were back in charge of the area around AUB. In 1982 acting AUB president David Dodge was kidnapped by a pro-Iranian group and in January 1984 AUB President Malcolm Kerr was assassinated. The decline of the Lebanese pound, which accelerated

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<sup>103</sup> Interview with al-Fadl Shalaq, Beirut, 4<sup>th</sup> April 2008.

from 1985 onwards, eroded professors' salaries. With funding dwindling, the university found it increasingly hard to retain qualified staff.

This is when Hariri stepped in. His student loan and language training programme pushed up the number of students able to pay university fees. More directly, Hariri helped pay for salaries of professors, employees, administrators and workers at AUB. He also instituted a faculty development programme to train promising academics, and provided a new building.<sup>104</sup> Hariri was invited to join the university's board of trustees. In Washington, the US government was consulted over Hariri's aid to the university.<sup>105</sup> Hariri was thus saving an institution which was spreading "American values".<sup>106</sup> Hariri's action also helped reproduce the great inequality between well-endowed English- and French-language institutions – such as AUB, St. Joseph University, International College – which fostered Lebanon's future economic and political elite, and poorer institutions such as the Lebanese University and the Arab University. While Nasser had opened a university with a specifically Arab nationalist mission in Beirut, the former Nasserite activist Rafiq Hariri lavished resources on the American University. It is no coincidence that Hariri was to rely on a network of technocrats associated with the economics and finance department of AUB for his economic policy. The heads of Hariri's two banks – Sabah al-Haj and Fu'ad Siniura – had both been academics at AUB. Siniura later became Hariri's finance minister. After 2000, a young AUB-educated technocrat called Basil Fulayhan became the leading architect of the neoliberalisation drive, which followed Hariri's return to the post of prime minister in that year. The Hariri Foundation therefore not only reproduced sectarian discourses and practices, it also reproduced the existing hierarchy in higher education.

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<sup>104</sup> "An Agreement between the Hariri Foundation (HF) and the American University of Beirut (AUB)", 21<sup>st</sup> January 1987, American University of Beirut/Library Archives, AA:2.5.6.2, Career Guidance Center 1991 – 1997. *Al-Safir*, 25<sup>th</sup> November 1986, p. 7.

<sup>105</sup> Prior to announcing the continuation of support to staff salaries, Hariri met Assistant Secretary of State for Near East Affairs Richard Murphy together with the head of the AUB management council Christian Herter. *Al-Safir*, 25<sup>th</sup> November 1986, p. 7.

<sup>106</sup> The Americans also propped up the finances of the university. In April 1984 the US Senate foreign relations committee endowed AUB with a trust fund of US\$50 million. The establishment of the trust fund coincided with the announcement that the US would withdraw the 1,800 marines still lying offshore as part of the Multinational Force in Lebanon. *ANARAM*, 2<sup>nd</sup> April 1984, p. 19. For a history of US government and philanthropic support for AUB, see Altan-Olcay, 2008.

## 2.7. What explains Rafiq Hariri's rise from political outsider to prime minister?

Rafiq Hariri's rise has to be understood with reference to two factors. Firstly, Lebanon's changing role in the capitalist world economy gave rise to a new contractor bourgeoisie. This was a new type of elite which joined established elites: the pre-war bourgeois families, Shihabist technocrats, military and intelligence establishment, militia leaders and their business allies. These different types of elites are the actors who shaped post-war neoliberal rent-creation and the restructuring of the state, discussed in chapter 3. The second reason for Hariri's rise was the political and financial support he received from Saudi Arabia. Hariri had worked hard to endear himself to the Saudi monarch first as a contractor in Saudi Arabia, later through the clean-up of Beirut in 1982. He then rose to become the "Saudi man in Lebanon". In line with the broader Saudi policy in Lebanon, Hariri first supported the Gemayel project from 1982 to 1984. After the defeat of Gemayel, Hariri pragmatically accepted Syrian dominance in Lebanon and helped both to negotiate the 1985 militia agreement and the 1989 Ta'if agreement. The latter was based on US-Syrian concord brokered by Saudi Arabia. This concord provided the basis for Hariri's rise to the post of prime minister, from where he directed his neoliberal reconstruction drive. Rafiq Hariri also started his philanthropic activities, setting up a large student loan programme. While most beneficiaries were Sunni Muslims, Hariri did not emulate established Sunni associations such as Maqasid in building up a grass roots clientelist base. This transformation of Hariri to a specifically Sunni leader only occurred in the second half of the 1990s.

### 3. Reconstruction 1992-1998

In the introduction, neoliberalism was characterised as an economic, political, cultural, and “imperial” project. This chapter deals with neoliberalism as an economic and political project: the reproduction of neoliberal practices and discourses in Lebanon designed to create rent, which was appropriated and shared by a small elite. In other words, neoliberalism in Lebanon was economic in the sense that it formally conformed to the logic of neoliberal economic orthodoxy with all its contradictory prescriptions, and it was political in that rents were appropriated by a small elite. Rafiq Hariri and his technocrats pursued an economic project that conformed to neoliberal orthodoxy. The standard policy prescription derived from neoliberalism was summarised in the early 1990s by John Williamson.<sup>1</sup> It comprised ten policies which boiled down to disciplined macro-economic policies, the use of markets (rather than allocation by state fiat), and trade liberalisation (Williamson, 2004 p. 13). These policies are designed to make a country “competitive” in the global marketplace by attracting investment (Radice, 2005 pp. 96-97; Harvey, 2005 p. 48). From this arises a sense that “there is no alternative” (TINA) if a country is to prosper in a globalised world. The “consensus” and the lack of alternatives work as discursive devices designed to curtail policy options, especially if expounded by technocratic experts who possess the cultural capital to speak on the economy. In post-war Lebanon after 1990, Rafiq Hariri and the technocrats he hired to run the economic ministries of the state argued exactly along those lines. Hariri and his technocrats therefore appropriated neoliberal economic orthodoxy: as befits a construction contractor, Hariri wanted to make Lebanon competitive in the “New Middle East” by providing “world class” infrastructure in order to attract foreign investment. The second pillar of Hariri’s policy, designed by his technocrats, was the stabilisation of the Lebanese exchange rate. The implementation of neoliberal orthodoxy in Lebanon was highly uneven: Hariri’s policies achieved macro-economic stability for the currency and in terms of inflation but at the cost of skyrocketing government debt. The provision of infrastructure was central to Rafiq

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<sup>1</sup> Williamson (2004, p. 2, FN 1) vigorously denies that the “Washington Consensus” is neoliberal – a term which for him is nothing more but “an intellectual swearword”. For him, neoliberalism is the monetarism, supply side economics, and small-government ideology of Friedman and Hayek, realised by Margaret Thatcher and Ronald Reagan. However, none of these theorists would necessarily have disagreed with Williamson’s prescriptions.

Hariri's neoliberal programme. Trade liberalisation and the use of the market over state provision were of secondary importance to Hariri and his technocrats although they discovered them after 2000, when Hariri returned as prime minister after a two-year hiatus.

The economic and political logics of neoliberalism will be explored by answering three questions. Firstly, how did rent-creation mechanisms in Lebanon work? Four rent-creation mechanisms will be discussed: the reconstruction of Beirut's city centre, government debt management, using service ministries as patronage instruments, and the appropriation of monopoly rents in consumer markets. The first two conformed to a neoliberal logic, the latter contradicted this logic. These four rent-creation mechanisms thus form the specific pattern of Lebanese economic neoliberalism. Secondly, who appropriated rent? And thirdly, how was it appropriated, i.e. which state institutions were being instrumentalised? Rents were appropriated by different types of elites whose histories were narrated in chapter 2. Rafiq Hariri as a "new contractor" was the driving force behind neoliberal rent-creation mechanisms, collaborating with technocratic experts who were running the relevant economic ministries. In contravention of the neoliberal logic of cutting welfare and increasing competition, former militia leaders were using state welfare as a patronage resource and sought to retain control over monopoly rents in consumer markets. The institutional mechanisms by which rent-creation mechanisms were put in place can also be understood in terms of the neoliberal restructuring of the state. Rafiq Hariri and his technocrats controlled the Council for Development and Reconstruction (CDR), the central bank, and the finance ministry. In contrast, the former militia leaders and their allies controlled "service ministries" concerned with welfare provision and they were in charge of state-controlled companies. Furthermore, they demanded a share of neoliberal rents appropriated by Hariri and other new contractors as side payments because they could act as spoilers. This division corresponds to the division of the state into a "right hand" and a "left hand" proposed by Pierre Bourdieu: the realisation of neoliberal economic policies requires a strengthening of the economic ministries that make up the right hand of the state and the neglect or weakening of the welfare functions of the state that constitute the left hand (Bourdieu, 1998 p. 2). The struggle

between former militia leaders and Hariri as a “new contractor” shaped Lebanese neoliberalism. Section 1 of this chapter looks at the way in which rent-creation mechanisms worked, section 2 looks at the elites that appropriated rent and the institutions involved in putting these mechanisms into place.

### **3.1. How post-war rent-creation mechanisms worked**

During the civil war Lebanon had lost its pre-war role of financial mediation between the Arab East and Western financial markets. By the mid- to late 1980s, the only way for banks to achieve profits was through successive rounds of speculation against the country’s currency. This predatory rent-seeking was unsustainable. A new and more stable system of accumulation was required to appropriate surplus in the post-war period. Hariri and his technocrats filled this vacuum by pushing for a neoliberal economic project which was aimed both at making Lebanon “competitive” and earning rents for Hariri, for other “new contractors”, and for Gulf investors. This section looks at the way in which different rent-creation mechanisms worked.

#### **3.1.1. Rent-creation mechanism I: Reconstruction**

The first mechanism to be discussed here is reconstruction. The flagship project of this process was the reconstruction of the commercial centre of Beirut, rebranded as the Beirut Central District (BCD). The project accorded with a neoliberal model of urban “regeneration” that was being reproduced in different cities across the globe, for instance London’s Docklands or New York’s Battery Park. An analysis by Swyngedouw, Moulaert and Rodriguez (2002) of 13 such projects in Europe suggests that they are marked by the logic of “place marketing”, the creation of rent in such a way that cost and risk are borne by the state while profit is privatised, a planning process marked by “exceptionality” and exclusion, resulting in spaces that are “elite playing fields” and “islands of wealth” in a “fragmented city”. All these elements can be found in the BCD project, too.

The first element of interest here is the way in which rent was created. The vehicle for rent-extraction was the transfer of property rights to a single real estate company called Solidere in exchange for shares to the original owners.<sup>2</sup> The rationale for the expropriation was the complex web of ownership rights, with both owners and tenants having claims to properties, some dating back to Ottoman times. The number of owners is therefore variously estimated to range from 100,000 to 150,000 tenants and landowners.<sup>3</sup> The original owners received US\$1.17 billion in shares as compensation, while another US\$650 million was raised through a public issue in January 1994, which was oversubscribed by 142% (Solidere, 1995 p. 4). Over 90% of original property owners accepted the deal and took the shares.<sup>4</sup> Once the company had gained control of the area, it pursued the maximisation of profit by more than doubling the density of the city centre and the floor space.<sup>5</sup> This drastic increase in density necessitated the demolition of much of the area's historic fabric. Schmid estimates that the original fabric was totally cleared on around 80% of the area covered by Solidere: "In the end, far more buildings were demolished during the reconstruction than had been destroyed during the civil war" (Schmid, 2006 p. 370). Those parts of the city centre which were indeed recuperated were those which already had the highest density.

The imperative of profit maximisation drove the planning and development efforts. Solidere's public relations brochures included several pledges to serve wider societal goals: reintegrating the central district in metropolitan Beirut and strengthening links with neighbouring areas, preserving the area's historical core, and providing cultural centres such as a national library (Solidere, 1995 p. 9). Yet which parts of the historic fabric to recuperate was decided along economic lines, and the Solidere master plan has been criticised for not achieving the area's integration with the surrounding neighbourhoods. Instead roads and flyovers act as barriers to areas adjacent to the BCD (Schmid, 2006 p. 373). The road network gives a clue as to whose needs the BCD is

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<sup>2</sup> For a summary of the debate whether a transfer had actually taken place, whether it was voluntary or enforced, see Leenders (2004b, p. 146-148).

<sup>3</sup> *Daily Star*, 6<sup>th</sup> August 2007, p. 4.

<sup>4</sup> *Daily Star*, 6<sup>th</sup> August 2007, p. 4.

<sup>5</sup> For figures see Schmid, 2005 p. 370; Verdeil, 2002 pp. 57, 62.

to serve: An eight lane highway “quasi wormholes the airport to the downtown” (Eid-Sabbagh, 2007 p. 138), rendering the poorer quarters of southern Beirut invisible to the tourist or businessperson arriving in Beirut. As expressed in an information brochure by Solidere: “In the modern financial centre planned on the sea-front, national and international companies operating in the region will have a prestigious location for their headquarters or local branches. This centre will be equipped with sophisticated infrastructure facilities and be easily accessible from the city and the airport.” (Solidere, 1995 p. 12). The other functions of the BCD were to be residential, commercial, tourism, culture and recreation, as well as governmental. In all these domains, the aim was to cater for the high-end and luxury segment of the market, be it hotels, retail, or residential developments. It was this potential to capture the lucrative end of the market, which was to attract international investment. Again, this deference to the need of international investors is a typical feature of neoliberal urban planning, turning large scale urban development projects into “elite playing fields” (Swyngedouw, et al., 2002 p. 563). A lot of the investment in and the demand for tourism services, retail and luxury apartments come from the Gulf. The profits are realised by investors in Solidere and by developers who bought land off Solidere to pursue their own projects. The rationale for targeting the reconstructed city centre at global investors also follows the neoliberal rationale of making cities “competitive” in the global market place. This was to be achieved by providing “world class” infrastructure (and thus making Beirut the same as elsewhere) but also making Beirut seem unique in its history and culture. This commodification of “heritage” was expressed in Solidere’s slogan of Beirut as an “ancient city of the future”, suggesting that the Solidere project stood in a long trading and financial tradition stretching back to Phoenician times (el-Dahdah, 1998; Makdisi, 1997). This is the “place marketing” typical of neoliberal urban development.

Despite the claim that the private sector is taking the lead in the reconstruction, the state played a vital role in guaranteeing investors’ profits. In order to recompense Solidere for the infrastructure work in the BCD, the Lebanese government agreed in 1994 to sign over the area of land reclaimed from the sea by converting a landfill area that had sprung up during the war. Critics raised concerns that the government may

have overpaid the company, considering that the land it gained was worth much more than the infrastructure work.<sup>6</sup> Leenders estimates that Solidere's profit is set to amount to US\$622 million (Leenders, 2004b pp. 89-90). Furthermore, Solidere benefited from substantial tax breaks: dividends to shareholders, capital gains from the sale of shares, as well as Solidere income itself were exempt from tax for ten years following incorporation in 1994 (Solidere, 1995 p. 5). Nor did most original owners benefit from receiving Solidere shares. There were indications that some properties were undervalued – an issue which is discussed further below. One owner complained that the property, which had been valued at US\$800 per square metre of built up area in 1992 fetched US\$15,000 to US\$20,000 in 2007.<sup>7</sup> Other property owners complained that their shares were issued late, when the secondary market had already been established. By April 1995, only 2.6 million of a total 11.7 million shares had been distributed to original owners (Najem, 2000 p. 167). This meant that they missed a peak in share prices at US\$173 in August 1994 – up from US\$100 at issue.<sup>8</sup> The share price subsequently plunged and hovered between US\$3 and US\$10 from 1997 to 2004.<sup>9</sup> The picture that emerges is one where the state bore much of the cost of reconstruction and the original property owners did not share in the land rents realised by developers. Furthermore, the mechanism by which owners were expropriated illustrates one of the contradictions between neoliberal orthodoxy and practice: while one of the main functions of the neoliberal state is to defend property rights, Solidere represented a transfer of such rights which was involuntary in a significant number of cases and created rents for a group of private investors while the public benefit remains controversial (Leenders, 2004b pp. 144-146, 253).

Solidere was not the only real estate company that was founded. Other ones were Linord on the Metn coast north of Beirut and Elissar in southern Beirut. As discussed in chapter 2, all three projects had been started with Hariri's participation after the Israeli invasion in 1982 but had to be abandoned because Hariri's political ally at the time –

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<sup>6</sup> Economist Intelligence Unit (EIU), *Country Report: Lebanon*, 3<sup>rd</sup> Quarter 1994, p. 10. *MEI*, 12<sup>th</sup> May 1995, p. 15.

<sup>7</sup> Quoted in *Daily Star*, 6<sup>th</sup> August 2007, p. 4.

<sup>8</sup> Interview with Khalid Da'ouq, Beirut, 20<sup>th</sup> March 2008. *Lebanon Report*, September 1994, p. 8.

<sup>9</sup> According to figures published by the Beirut Stock Exchange (BSE), available at <http://www.bse.com.lb/Market/HistoricalData/tabid/90/Default.aspx>, viewed on 26<sup>th</sup> January 2010.

President Amin Gemayel – was defeated by Syrian-allied militias. A fourth project in Sidon had already been started during the civil war but was only realised thereafter.<sup>10</sup> Linord works along similar lines as Solidere to facilitate rent extraction for investors: The state recompensed the company for the cost of land reclamation by giving it property rights over reclaimed land,<sup>11</sup> planning is in the hands of Linord and oriented on maximising profit,<sup>12</sup> while the area is deliberately separated from the surrounding social and physical fabric in order to market its “exclusivity” (Ghandour Atallah, 1998). The idea behind Elissar, located along the littoral in southern Beirut, was the same as Solidere and Linord: to create rent in a prime location, this time by transferring land use from “informal” and “illegal” settlements to tourism, recreation and luxury residential developments. Yet in this area, Hariri’s plans were held up by having to contend with Amal and Hizbullah, which were not opposed to the project in principle but sought to gain a share of the rent and, importantly, to direct benefits towards their predominantly Shi’i constituency in the area (Harb el-Kak, 2000).

The effect of using reconstruction to create and appropriate rents was to reproduce the inequality in the political economy that had marked the pre-war and civil war eras. In chapter 4 these effects will be discussed in greater detail: reconstruction expenditure was concentrated in Beirut, reproducing the skewed regional development of the pre-war era. While original reconstruction plans published by the government had foreseen considerable spending in the areas of “social infrastructure” and the “productive sectors” (agriculture and industry), the actual focus of expenditure was on physical infrastructure, benefiting contractors but not the population at large.

### **3.1.2. Rent-creation mechanism II: Government over-borrowing from commercial banks**

Probably the largest rent-creation mechanism was government over-borrowing from domestic commercial banks. This led to a transfer of wealth from the state – and thus

<sup>10</sup> EIU, *Country Report: Lebanon*, 1<sup>st</sup> Quarter 1996, p. 15.

<sup>11</sup> EIU, *Country Report: Lebanon*, 1<sup>st</sup> Quarter 1998, p. 24.

<sup>12</sup> For instance by minimising public space and showing maximum flexibility regarding the demands of developers.

ultimately the Lebanese tax payer – to banks and depositors. Since deposits were extremely concentrated, wealth was subsequently also concentrated. Public debt had been virtually unknown in pre-war Lebanon. As discussed in chapter 2, the *zu'ama* who acted as representatives of Lebanon's commercial financial bourgeoisie kept the state provision of public services minimal. During the civil war militias seized the ports and their customs points, the main source of government revenue. The state continued paying salaries to its employees and thus started slipping into debt. Yet when Hariri came into office, public debt was under control. The government had regained some ability to collect customs and taxes and a currency crisis in 1992 had induced runaway inflation, thus slashing the value of Lebanese pound-denominated debt. However, under the Hariri government expenditure and deficits skyrocketed and debt grew from 50.7% of GDP in 1993 to 109.1% in 1998, the year that Hariri stepped down as prime minister (IMF, 2007). The government financed its debt by selling Lebanese pound denominated treasury bills, which were primarily bought up by domestic commercial banks. Only from 1999 onwards – when Hariri had left office – did the government make a sustained effort to finance the debt by issuing foreign currency bonds (Eurobonds). Between December 1993 and December 1998, banks held between two thirds and three quarters of all Lebanese Pound denominated debt at any one time.<sup>13</sup> The vast majority of these banks were Lebanese.

During the 1980s and into 1993, Lebanese banks had often been reluctant to buy up treasury bills and had to be coerced into doing so by requiring them to invest nearly 80% of their pound deposits in government bonds, while interest rates were “arbitrarily set” by the ministry of finance and the central bank.<sup>14</sup> Yet from May 1993 onwards, the central bank turned to carrots rather than sticks to market its T-bills. It started weekly auctions for T-bills, apparently allowing the forces of the free market to determine interest rates. Yet two conditions had to be met to encourage banks to keep buying the bonds. The first was the convertibility of the Lebanese Pound to the US dollar. The value of the Lebanese Pound rose from LL2,420 to the US dollar in September 1992 – just before Hariri became prime minister in October – and

<sup>13</sup> Data downloaded from the Banque du Liban website, available at: <http://www.bdl.gov.lb/edata/index.asp>

<sup>14</sup> *Lebanon Report*, February 1993, p. 9.

appreciated to LL1,507 in December 1997, where it has remained fixed ever since.<sup>15</sup> This convertibility made investment in T-bills an attractive proposition, because the spread of T-bill interest rates over comparable foreign currency investments elsewhere made for enormous profits. The reference rate that is usually used is the London Interbank Offered Rate (LIBOR).

In theory, the spread of T-bills over LIBOR is supposed to reflect the currency risk: the risk that the Lebanese currency would be devalued, thus devaluing the T-bills the investor holds. However, two studies published by the IMF suggest that the market by which interest rates on T-bills were determined was anything but free. One study finds that the “pass through” from international benchmark interest rates to rates on Lebanese government bonds is lower than expected, considering that Lebanon puts no restrictions on capital exchange. The author explains this with reference to “a home bias effect resulting from a dedicated Lebanese investor base” (IMF, 2006 p. 26). The second study finds that interest rates on government bonds reflect macro-economic fundamentals but not to the degree that one would expect. The authors therefore speculate that “socio-political conditions” play a role in determining Lebanese interest rates (Urnechlian, et al., 1999 p. 37). Since the play of the free market does not seem to have determined the value of interest rates, it is worth having a closer look at the “socio-political conditions” and “home bias” that distorted Lebanese bond markets.

The central bank was offering more T-bills than the government required to finance its deficit. Observers have pointed out that the government maintained large deposits, which could have been used to finance the deficit, reduce the amount that the central bank would have to raise for the government, and hence reduce interest rates on T-bills.<sup>16</sup> The economist and Hariri critic George Qurm argued that the Hariri government engaged in substantial over-borrowing, taking on more debt than is warranted by the

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<sup>15</sup> Data downloaded from the Banque du Liban website, available at:  
<http://www.bdl.gov.lb/edata/index.asp>

<sup>16</sup> Helbling, 1999 p. 46; George Corm, “Overcoming the Debt Trap: Towards an Alternative Development Model in Lebanon”, Presentation at the American University Beirut, 21<sup>st</sup> May 2007.

government budget deficit.<sup>17</sup> In 1994, the government held about a quarter of the value of total public debt as public sector deposits in the central bank (Helbling, 1999 p. 44). Due to successive political and international crises, this measure dropped to 19.2% in 1996 and 6.0% in 1997. The accumulation of these deposits in “good times” – when there was no crisis and the government found it easy to sell T-bills – carried a considerable cost for the Lebanese government because this over-borrowing pushed up interest rates. Gaspard (2004, p. 218) calculates that between 1993 and 2002, the weighted annual yield on Lebanese Pound denominated treasury bills averaged 18% but estimates that 9% would have been a more realistic rate, enabling savings of US\$8.5 billion. He adds excess interest payments of US\$1 billion and a “corruption” rate, estimating that the Lebanese government overpaid US\$16 billion on its debt between 1993 and 2002.<sup>18</sup>

Hariri’s defence of the charge of over-borrowing is revealing because he uses the familiar neoliberal rhetorical device that “there is no alternative”:

“Turning to our nominal anchor exchange rate policy, this policy raised severe criticism from certain quarters. This criticism is based on a hypothetical calculation of the financial cost of such a fixed exchange rate policy on the Lebanese Treasury. Nevertheless, this calculation remains purely theoretical as the stability of the Lebanese Lira represents a critical component of the confidence in the Lebanese economy both domestically and internationally. It also represents a major incentive for capital inflows and the main tool to combat inflation, reduce interest rates, protect the savings of the middle class and preserve the purchasing power of the underprivileged segments of society. Consequently, and irrespective of the theoretical cost that some may wish to attach to this policy, it remains a crucial factor in the successes achieved since the end of 1992.” (Hariri, 1999 p. 51)

Government over-borrowing allowed the bank to manage the foreign exchange rate: It created artificial demand for Lebanese pounds, thus drawing in Lebanese pound deposits. This led to a reduction in the “dollarization” of the Lebanese economy: the

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<sup>17</sup> George Corm, “Overcoming the Debt Trap: Towards an Alternative Development Model in Lebanon”, Presentation at the American University Beirut, 21<sup>st</sup> May 2007, slide 17.

<sup>18</sup> Corm provides a similar calculation. George Corm, “Overcoming the Debt Trap: Towards an Alternative Development Model in Lebanon”, Presentation at the American University Beirut, 21<sup>st</sup> May 2007, slide 18.

share of foreign currency deposits of total deposits fell from 86.8% in September 1992 to 54.7% in March 1997 before rising again 63.7% in November 1998.<sup>19</sup> Of course, this “de-dollarisation” was somewhat artificial because it was not riding on any measure of economic success of the country but on the continued ability of the central bank to maintain high interest rates and roll over government debt. During currency crises the “buffer” created by over-borrowing could be used to maintain the Lebanese pound’s value.<sup>20</sup> Yet notice the circularity – and fragility – of this confidence game: The convertibility of Lebanese Pounds to US dollar depended on the government’s ability to roll over debt. But the willingness to roll over debt depended on convertibility because “the Lebanese pound is another dollar that is better remunerated”.<sup>21</sup> The way in which confidence was maintained is the central puzzle of Lebanon’s post-war political economy and it requires a sociological and political explanation, not just an economic one.

The effect of over-borrowing has been a transfer of wealth from tax-payers to banks and depositors. This transfer of wealth has partly already taken place in the form of interest payments, partly it is deferred to the future repayment of the debt or an economic crisis following default. Only then will the full cost of the debt have been realised at the expense of Lebanese citizens. Lebanese commercial banks benefited from government over-borrowing. Banks were able to build up their assets by lending to the government: About a third of the spectacular growth in bank assets of 387% between 1992 and 1998 was due to T-bills (Baz, various years). The total interest that banks earned from T-bills amounted to US\$6.3 billion between 1994 and 1998 (Baz, various years). Profitability was restored, as banks’ net profits amounted to 2.2% of GDP between 1992 and 1998 (Baz, various years).

The banks were not the only beneficiaries of rent created by over-borrowing. They financed lending to the government by drawing in Lebanese Pound denominated

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<sup>19</sup> Data downloaded from the Banque du Liban website, available at: <http://www.bdl.gov.lb/edata/index.asp>

<sup>20</sup> Interview with Muhammad Shatah, Beirut, 13<sup>th</sup> February 2008.

<sup>21</sup> Interview with Charbel Nahas, Beirut, 2<sup>nd</sup> June 2008.

deposits. Their profits therefore derived from the interest rate differential between T-bills and LL-denominated deposits (see appendix 3). Depositors also earned handsomely from high interest rates: During Hariri's tenure as prime minister from October 1992 to December 1998, the average rate on LL-denominated deposits fluctuated between a low of 11.1% and a high of 19.1%.<sup>22</sup> In order to understand the distributive effects of the rents flowing to depositors, we need to have a closer look at the structure of deposits, which are extremely concentrated. According to a report from 2002, 0.6% of the number of accounts were holding more than 40% of total deposits (UNDP, 2002, p. 77). The effect was that the enormous rents derived from government borrowing benefited a small group of investors. This depositor structure is key to understanding how confidence was maintained. The sociology of the depositor base is discussed in the section below on institutions behind over-borrowing. The constant inflow of Lebanese pound-denominated deposits created the capital account surplus required to maintain the value of the Lebanese pound.

### 3.1.3. Rent-creation mechanism III: Service ministries

Government spending did not just benefit the banks or contractors involved in reconstruction but also the "service ministries", such as education, health, or the ministry of the displaced. Ministers came to use them as patronage sources. The World Bank calculated that government expenditure on community and social services – which includes education, health, and social and welfare – reached 7.8% of GDP in 1997, while expenditure on military and security reached 6.5%.<sup>23</sup> Expenditure on wages and salaries for the whole government reached 10.3% of GDP in 1997. While these figures are high, they should be put in the context of spending on public debt transactions – the cost of rent-creation through government debt management – which reached 14.5% of GDP in 1997. More important than the volume of welfare expenditure is the way the money is spent. There are indications of over-staffing by providing jobs to supporters and fraudulent practices to benefit private interests.

<sup>22</sup> Data downloaded from the Banque du Liban website, available at: <http://www.bdl.gov.lb/edata/index.asp>

<sup>23</sup> The data on public expenditure by functional category are taken from World Bank (2005 pp. 75-76).

These issues are widely discussed in Lebanon and anecdotal evidence crops up in several reports. Pupil-teacher ratios in public schools stood at 8:1 compared to 17:1 in private schools in the 1990s (Khalidi-Beyhum, 1999 p. 61). Over-staffing is one reason for the discrepancy, with reports of teachers receiving salaries without actually working. In the health sector, private hospitals over-charged public social security funds while “political pressure” prevented the Ministry of Health from investigating the abuses (Ammar, 2003 p. 56). There is also evidence of ministers channelling social benefits to their constituencies rather than those who need them most. An internal paper of the Ministry of Social Affairs (MOSA) shows that spending did not benefit the poorest.<sup>24</sup> The north of Lebanon is home to 30.0% of Lebanese considered to live in deprivation but received only 13.9% of the MOSA budget in support of NGOs, social care institutions, and development projects. Meanwhile, the governorate of Mount Lebanon – which includes Beirut’s southern suburbs – received 44.6% of the budget while being home to 27.2% of the deprived. This suggests that political factors, rather than need, were the basis for allocating funds. The “service ministries” are here analysed in terms of rent-creation, but this should not be taken to mean that the provision of welfare is a “rent”. It is the waste and political use of social welfare as a patronage instrument that constitutes the rent element.

The most obvious case of the political use of service ministries were the Council for the South and the Ministry for the Displaced. The former was controlled by former militia leader Nabih Birri, the latter by former militia leader Walid Junblat. The level of expenditure by these bodies is hard to ascertain because they are excluded from the regular government budget – just as the CDR is (Hitti, et al., 1998 p. 24). The Council for the South carried out reconstruction projects in Israeli-occupied southern Lebanon and was therefore a convenient instrument for Amal leader Nabih Birri to channel patronage to his Shi’i constituents who were the majority in the south. However, patronage appears to have been more important than efficiency and the council’s efforts at rehabilitating infrastructure in the South in response to the Israeli

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<sup>24</sup> Ministry of Social Affairs, “Situation of the relationship between the Ministry of Social Affairs and the NGO sector in Lebanon” [in Arabic], internal report, June 2001. [‘Awda’ al-t’aqud baina wizarat al-shu’un al-ijtima’iyya wal-qita’ al-ahli fi lubnan].

withdrawal in 2000 were slow.<sup>25</sup> The Ministry of the Displaced was established in the early 1990s to support the estimated 500,000 people who were displaced during the civil war, with an estimated 75% of them living in poverty.<sup>26</sup> After Walid Junblat lost control of the ministry, he was accused of systematic waste and paying “political money”.<sup>27</sup> It is notable that rent-appropriation through service ministries goes against neoliberal economic orthodoxy, which distrusts income redistribution and trusts “trickling down” without state intervention. This corresponds with Bourdieu’s differentiation of the state: into a “right hand”, which consists of the economic ministries such as finance, and which pays for the “left hand”, the spending ministries such as education, health, or welfare (Bourdieu, 1998 p. 2). The “left hand” of the Lebanese state was the instrument of former militia leaders and *zu’ama* close to Syria, while Hariri was in charge of the “right hand”.

Finally, the military and intelligence establishment needs to be mentioned. This group was firmly under Syrian control. Any loyalists of General Michel ‘Awn, who had conducted a brief and ill-fated “war of liberation” against Syria in 1990, had been purged from the army. The new army commander Emile Lahud was a reliable Syrian ally who used the trust he received from the Damascus regime to reconstitute the army as one of the few national institutions that integrate a society otherwise rife with sectarian factionalism. A certain percentage of militiamen were integrated into the national army. The number of soldiers increased from 21,000 in 1990 to 45,000 in 1995, and 72,000 in 2002 (Nerguizian, 2009 p. 78). Government expenditure on military and security fluctuated somewhat but reached 6.5% of GDP in 1997 (World Bank, 2005 pp. 75-76). Hariri and the finance ministry complained about increasingly generous perquisites being provided to the military leadership.<sup>28</sup> Lebanon had never

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<sup>25</sup> In June 2001, the Council for the South's plan to reconnect southern areas to the national electricity grid had been completed but villages still complained about having no electricity. *MEI*, 1<sup>st</sup> June 2001, p. 24-25.

<sup>26</sup> The number of internally displaced is an estimate of the Ministry of the Displaced from 1996, quoted in Internal Displacement Monitor Centre, *Lebanon Overview*, Geneva, 30<sup>th</sup> December 2010, available at [http://www.internal-displacement.org/8025708F004BE3B1/%28httpInfoFiles%29/ADA51C6E3FB628FFC1257809004FD417/\\$file/Lebanon\\_Overview\\_Dec2010.pdf](http://www.internal-displacement.org/8025708F004BE3B1/%28httpInfoFiles%29/ADA51C6E3FB628FFC1257809004FD417/$file/Lebanon_Overview_Dec2010.pdf), viewed on 15<sup>th</sup> June 2011. The percentage of internally displaced persons living in poverty is from UNDP, 1997 p. 55.

<sup>27</sup> *MEI*, 9<sup>th</sup> April 1999, p. 11.

<sup>28</sup> EIU, *Country Report: Lebanon*, 4<sup>th</sup> Quarter 1994, p. 12.

been a militarised society, compared to other Arab states. However, there is a frequently expressed longing for a strong army that would overcome society's internal weakness and disunity. This sentiment goes back to President Shihab, a former general. Ever since, army commanders have dreamed of repeating the trick of transitioning from military to political leadership. Michel 'Awn had tried to become president but he failed, while Lahud would be elected president in 1998. Another pillar of the military and intelligence establishment was Syrian ally Michel al-Murr. He used the interior ministry, which he headed from 1994 to 2000, to further his political and economic interests (Abdelnour, 2003). He was said to use the interior ministry's control over construction permits for economic gain and as a patronage instrument. He was also said to use his position to protect his quarries both from competition and from environmental regulation.

#### **3.1.4. Rent-creation mechanism IV: Regulation and the lack thereof**

Another means of creating and appropriating rent were monopolies and oligopolies. Using value-added tax data from 2002, Gaspard calculates that at least 40% of total sales turnover in Lebanon took place in markets that may be considered to have monopolistic or oligopolistic structures (Consultation and Research Institute, 2003; Gaspard, 2004 p. 173). This resulted in relatively high price levels and a transfer of wealth from consumers to firms selling in the market. The following three examples illustrate these dynamics. The first is the case of exclusive representation, according to which foreign companies are to be represented by one exclusive agent only, forbidding imports of the same product by a third party. This is highly lucrative for the agent, who gains considerable market power. According to one consumer rights group, there were about 500 exclusive agents in Lebanon in 2005, employing an estimated 30,000 people and covering some 6,000 products (Consumer Lebanon, 2005). A second example is the importation of oil into Lebanon. During the civil war, the state had lost control of oil importation to the militias who controlled the ports. After the civil war, a cartel of oil importers continued controlling the market, keeping international companies out (Leenders, 2004a p. 178). Whether the cartel increased the price of oil for the consumer is not clear, but it certainly protected the profits of the companies involved.

Finally, the mobile phone sector is a major source of profit for the duopoly-operators and of revenue for the Lebanese government. Two companies won a tender for a “build-operate-transfer” contract to set up mobile phone networks in Lebanon in 1994: Cellis and Libancell. They started operations in 1995 and quickly picked up subscribers. Mobile phone revenue rose from US\$103 million in 1995 to US\$439 million in 1998.<sup>29</sup> Price rises were capped at 5% annually. However, in 1997 the government decided to hike prices and pocket the increase.<sup>30</sup> By then, the debt crisis of the Lebanese state had become apparent and the government was looking for ways to raise revenue. By 1998, the government was appropriating about half of all revenue from telecommunications services – both fixed and mobile.<sup>31</sup> After 2000 Hariri and his technocrats were to intensify attacks on monopolistic structures that benefited rival elites. However, it is not clear whether the structures that Hariri and his technocrats proposed would necessarily have been less monopolistic.

### **3.2. Who appropriated rent and how: elites and institutions**

After examining the four main rent-creation mechanisms that were benefiting the confessional elite cartel - the politicians occupying the top positions of the state by virtue of representing “their” confessional community, including Hariri<sup>32</sup> – we need to look at the institutional framework which governed these mechanisms. Hariri and technocrats he promoted were in charge of the ministry of finance, the central bank, and the CDR. This put him in control of over-borrowing and reconstruction. The former militia leaders as well as allies of Syria were in charge of service ministries, and security and foreign affairs ministries. Various sections of the elite benefited from different regulatory mechanisms by which monopolistic markets were created. The institutional dynamics in post-war Lebanon are usually discussed with reference to the sectarian

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<sup>29</sup> Data from the International Telecommunications Union, available at: [http://www.itu.int/ITU-D/ict/statistics/at\\_glance/ARTI02\\_E.pdf](http://www.itu.int/ITU-D/ict/statistics/at_glance/ARTI02_E.pdf), viewed on 4<sup>th</sup> February 2010.

<sup>30</sup> *Lebanon Report*, Fall 1997, p. 18-19.

<sup>31</sup> Calculated using data from International Telecommunications Union and the World Bank (2005 p. 75).

<sup>32</sup> The idea of a confessional elite cartel is expressed by Lijphart (1979; 2008) who argues that only “consociational” power-sharing among sectarian elites can prevent violent conflict and preserve electoral democracy in deeply divided societies. It includes Hariri as prime minister (1992-1998, 2000-2004) or potential prime minister when out of office.

division of power within the “troika” of president, prime minister, and speaker of parliament, as well as the fact of Syrian domination. The dynamics of rent-creation discussed here suggest another division in Lebanese politics, namely between those elites pushing a neoliberal economic and political programme and rival elites. This led to differing visions of restructuring the state, variously strengthening the “right hand” or the “left hand” of the state: Hariri was in charge of the “right hand” – the economic ministries – and the former militia leaders were in charge of the “left hand”, the spending ministries. Economic conflict between rival elites remained manageable. Hariri was allowed to take charge of reconstruction and government debt management, sharing rents with former militia leaders as “side payments”. The former militia leaders were allowed to use service ministries and state-controlled enterprises as patronage instruments. Saudi-Syrian concord meant that economic conflict was contained. Only after 2000 did economic conflict sharpen, when tension between Saudi Arabia and Syria increased.

### 3.2.1. Institutions in charge of reconstruction

The single most important institution for the reconstruction effort was the Council for Development and Reconstruction (CDR). Founded in 1977 by President Elias Sarkis and his Prime Minister Salim al-Huss, the CDR was a vehicle for reconstruction for Shihabist technocrats. In order to “insulate” the CDR from interference by the old bourgeoisie or the militia leaders, it was given wide ranging powers:<sup>33</sup> to draw up studies and propose laws, issue administrative licenses and authorisation and thus bypass other public bodies including municipalities, supervise all reconstruction projects under its care, and – crucially – to procure financing for all its projects, either from Lebanon or abroad, while being exempted from advance oversight by the court of accounts (‘Atallah, 2000 pp. 34-36). As discussed in chapter 2, President Amin Gemayel sought to gain control of the CDR in 1983, leading to conflict with its then-chairman Muhammad ‘Atallah. Hariri intervened in the dispute on ‘Atallah’s side in August 1983.<sup>34</sup> Hariri was at the time already benefiting from CDR contracts, such as the

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<sup>33</sup> Legislative Decree No. 5, “Creation of the Council for Development and Reconstruction”, 31<sup>st</sup> January 1977.

<sup>34</sup> ANARAM, 22<sup>nd</sup> August 1983, p. 4.

contract to build the northern littoral project that was to become the Linord project.<sup>35</sup> After the war, the billionaire contractor was looking for a vehicle with which he could control government spending on reconstruction. The CDR was to be this vehicle. In Law 117 of 1991, the CDR was given the power to establish and supervise real-estate companies such as Solidere and Linord. Crucially, Hariri managed to install his protégé as president of the CDR: in June 1991, Fadl Shalaq was appointed to the position. Shalaq had previously been an employee at Hariri's engineering company Oger, before being charged with overseeing Oger's clean up of Beirut in 1982 and setting up the Hariri Foundation student loan scheme 1983. When Shalaq became telecommunications minister in 1995, he was succeeded as president of the CDR by Nabil al-Jisr, another former employee of Oger (Iskandar, 2006 p. 69). Parliamentary supervision of the CDR's work was made more difficult because its budget remained outside the government-budget proper, which had to be submitted to parliament for approval (Hitti, et al., 1998 p. 24; 'Atallah, 2000 pp. 34-36). The CDR was the agency in charge of the majority of government expenditure on reconstruction. It was also in charge of setting up the real-estate companies by which rent-creation occurred in prime urban spaces such as Beirut's city centre.

As Swyngedouw, Moulaert, and Arantxa (Swyngedouw, et al., 2002) noted in their study of neoliberal urban "regeneration" projects, they tend to override established urban governance structures – such as municipalities. They do so by citing the "exceptionality" of their projects which

"favours a more autonomous, if not autocratic, dynamic marked by special plans and projects that relegate statutory norms and procedures to a secondary and subordinated place. Many local authorities and national governments justify the exceptionality of a UDP [urban development project] on the basis of different factors: scale, the emblematic character of the operation, timing pressures, the need for greater flexibility, efficiency criteria, and the like." (Swyngedouw, et al., 2002 p. 572)

Participation of "stakeholders" is not formalised but occurs through "cooptation and invitation" (p. 561), "the projects are therefore closely associated with the interests of particular coalition sets (and their clients); they are usually self-referential, closed

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<sup>35</sup> ANARAM, 8<sup>th</sup> August 1983, p. 7-8.

circles that consolidate their power while preventing access to others.” (p. 566) There is a strong reliance on “expertise”: “The role of experts is strengthened at the expense of a diminishing role of the public in general and of traditional organised groups in particular, with a consequent loss of democratic accountability.” (p. 574).

These elements are also found in the Solidere project, which was to overcome the “exceptional” situation created by the civil war, described thus in a Solidere information brochure:

“Located at the historical and geographical core of the city, the vibrant financial, commercial and administrative hub of the country, the Beirut Central District came under fire from all sides throughout most of the 16 years of fighting. At the end of the war, that area of the city was afflicted with overwhelming destruction, total devastation of the infrastructure, the presence of squatters in several areas, and extreme fragmentation and entanglement of property rights involving owners, tenants and leaseholders. In addition, the Normandy garbage dump, formed in the course of the war in the absence of an alternative dumping site, posed health and environmental problems.” (Solidere, 1995 p. 3)

According to Solidere, only a real-estate company with wide ranging powers to appropriate, plan and market the space in the city centre was to be able to deal with this situation. The Solidere project was very consciously viewed in terms of “new urban governance” and even as a reproducible model for urban regeneration to be followed elsewhere, as this quote from Angus Gavin, the leader of the planning team responsible for the city centre master plan shows:

“Solidere pioneers a growing trend toward less government involvement, more direct private investment and the incorporation of a broader community of ‘stakeholders’ in the urban regeneration process [...] This institutional framework takes forward to a new frontier the initiative of the private sector in large-scale urban renewal and reconstruction. It may offer the basis of a new model for application in other urban renewal projects elsewhere in the world. Many urban regeneration agencies are now seeking to reduce public sector funding and increase direct private sector involvement in such projects, while at the same time broadening the appeal to a wider range of both community and investment interests. The pioneering concept behind Solidere carries with it a great responsibility to the people of Beirut and a twofold discipline: the rigours of the market place and a commitment to a comprehensive Master Plan” (Gavin, 1996 pp. 16-17)

Of course, this praise for the private sector glosses over the fact that the Lebanese state was heavily involved in the project, reducing the risks faced by Solidere. Gavin himself embodies the reproduction of rent-creation and urban governance through neoliberal urbanism. Before joining Solidere he had been Principal Urban Designer and Development Manager in the Dockland's project in London, which has been cited as an inspiring urban model for Solidere (Summer, 2005 pp. 78-79).

While the concept of a real-estate company being charged with development or reconstruction is not new in Lebanon, the scale of control and property ownership by a single company as well as the lack of oversight by the traditional planning agencies was wholly novel (Salam, 1998; Mallat, 1983). Law 117 of 1991 set the framework for Solidere, as well as Linord.<sup>36</sup> The real estate company was to be responsible for planning and reconstruction, land sales to developers, as well as developing and marketing of properties. Property owners were to receive shares and the amount of compensation was to be fixed by a committee presided over by a judge and consisting of economists, architects and other experts. Solidere was to carry out infrastructure work and be recompensed for this by the state, not least by being allowed to develop any reclaimed land.

Law 117 also stipulated that no individual shareholder was allowed to own more than 10% of all shares. In January 1994 Hariri subscribed to 7% of total shares but parliament member Najah Wakim – an opponent of Hariri and author of a book detailing allegations of corruption of Hariri and the rest of the political class – claimed that Hariri used employees, family members and middlemen to control a much larger share of voting rights.<sup>37</sup> Another major investor was Nabil Bustani, representative of one of the families that belonged to Lebanon's pre-war commercial-financial bourgeoisie. He subscribed to US\$50 million worth of shares (Najem, 2000 p. 167). The company was set up via a "board of founders", which included a large number of representatives of Saudi business (Najem, 2000 p. 166). Solidere is headed by a board

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<sup>36</sup> Law No. 91-117, Beirut, 7<sup>th</sup> December 1991.

<sup>37</sup> Wakim's allegations are cited by Leenders (2004b p. 88). On Hariri subscribing to 7% of shares, see *Al Nahar*, 8<sup>th</sup> January 1994, p. 1, p. 15.

of directors, chaired by Nasir al-Shama', formerly head of operations and maintenance at Saudi Oger. The board of directors also included Bassil Yarid who had been a legal advisor to Hariri and board member of Hariri's Banque Méditerranée since 1985.<sup>38</sup> Board member Sami Nahas was a representative of the Maqasid association, which had been a major landowner in the city centre. Muhammad Ghaziri was the representative of the municipality and also a member of the Maqasid board. He had been an ally of Beirut Sunni za'im Sa'ib Salam but moved closer to Hariri in the 1990s (Legum, 1992 p. 619; Makassed, 1998 p. 36). The other board members included various contracting interests, including the major Solidere investor Nabil Bustani. Solidere was thus very much in the hands of Hariri and a network of allies he had built up among Saudi businessmen, Lebanon's pre-war bourgeoisie, and former employees.<sup>39</sup> Little wonder, then, that the government consented to over-paying Solidere for infrastructure work by handing over land reclaimed through the Normandy landfill. The negotiations took place between Hariri as prime minister, Shalaq as head of the CDR, and the board of directors (Leenders, 2003 p. 321). Noting that Hariri had thus negotiated the deal with his own former employees, Leenders comments: "In the murky institutional environment of Lebanon's largest reconstruction project in history, Hariri had thus basically negotiated the contract terms with himself." (Leenders, 2003 p. 321)

Another important aspect for understanding how this control was established is to look at the gestation of Law 117 of 1991. In order to gain approval for his plan, Hariri had to win over parliament and the property owners of the area. Najah Wakim claimed that Hariri had bribed about 40 members of parliament with cash or through low-interest loans from his Bank Med, which allowed them to subscribe to Solidere shares, benefit from a rise in their price and use the proceeds to repay the loan.<sup>40</sup> These claims are impossible to verify. Hariri managed to win support from major figures such as

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<sup>38</sup> Solidere website, <http://www.solidere.com/solidere/leaders.html>, viewed on 25th January 2010

<sup>39</sup> Schmid (2006, p. 371) goes as far as to suggest that Hariri controlled all but one seat on the board of directors.

<sup>40</sup> Leenders (2004b, pp. 86-87) cites Wakim's claim that Hariri bribed around 40 MPs, some in cash at \$50,000 to \$100,000; others received interest-free loans from Hariri's Bank Méditerranée and Saudi-Lebanese bank, which allowed them to subscribe to Solidere shares issued in January 1994. Wakim gives little evidence of his claims and Leenders finds them impossible to authenticate.

Sa'ib Salam, who was especially flown in on Hariri's private jet, briefly abandoning his self-imposed exile in Switzerland to attend the official ceremony initiating the reconstruction of central Beirut in 1994.<sup>41</sup> Another major constituency that Hariri had to win over were the awqaf (singular: waqf), religious endowments belonging to the different religious communities. Awqaf enjoy special legal status and face restrictions on selling land, although historically, awqaf have behaved pragmatically to get around restrictions on sale (Skovgaard-Petersen, 1998 p. 77). Hariri lobbied the awqaf and managed to gain their agreement to his plans.<sup>42</sup> Schmid reports that the Maqasid and the Christian awqaf were won over by granting them higher compensation than "normal" property owners, but did not manage to convince the Sunni Muslim awqaf islamiyya (Schmid, 2005 p. 19). The person who was lobbying both parliament and the awqaf was Bahij Tabbara, a legal advisor to Hariri (Iskandar, 2006 p. 67).

Traditionally, urban planning and regulation had been minimal in Lebanon, reflecting the country's laissez faire economy (Salam, 1998). However, the Solidere project led to the almost complete marginalisation of the municipality and the governorate (muhafaza) of Beirut. According to the original legislation of 1977, the CDR could override the local authorities. Solidere was charged with planning the city centre with little input by the governor (muhafiz) or the president of the municipal council (ra'is baladiya) of Beirut. Solidere was thus only accountable to the CDR and both institutions were headed by Hariri protégés. In order to prevent any opposition from the governorate (muhafaza) of Beirut, Prime Minister Hariri appointed a former Oger employee to be muhafiz in November 1995.<sup>43</sup> Hariri thus ensured that there would be no significant opposition to Solidere from the city authorities.

The reconstruction of central Beirut has been shown to be typical of the neoliberal model of large scale urban "renewal" (Swyngedouw, et al., 2002): Rents were created

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<sup>41</sup> *Lebanon Report*, October-November 1994, p. 7

<sup>42</sup> For instance the visit of Bahij Tabbara and Fadl Shalaq to Metropolitan of Beirut for the Greek Orthodox the Mitran Elias 'Audi. *Al-Nahar*, 19<sup>th</sup> December 1990, p. 5.

<sup>43</sup> EIU, *Country Report: Lebanon*, 1<sup>st</sup> Quarter, 1996, p. 10. The government could also use financial pressure against Beirut municipality, which relied on funds dispersed from the centre. It did so in 1995. EIU, *Country Report: Lebanon*, 4<sup>th</sup> Quarter 1995, p. 14.

and privatised to benefit a small elite, much of the cost was borne by the state, and the “exceptionality” of the project allowed this small elite to control the institutions in charge of the reconstruction process. At the same time, the specific political conditions, such as the need to share rent with other members of the reconstituted confessional elite cartel, shaped the institutional and economic outcome of the project. Again, this is considered typical of the neoliberalisation of the city (Brenner and Theodore, 2002). Yet what was the role of Rafiq Hariri, the individual? It is the answer to this question which tells us something about agency in the reproduction of these urban forms. Hariri presented himself as the individual who had had the “vision” of rebuilding Beirut. In a drive to promote his ideas to international investors, he had the following to say to the *Financial Times* in 1993:

“I am the man behind the idea to rebuild central Beirut. In 1975 I was just a small poor guy, working in Saudi Arabia, so I did not really know how Beirut was then. We do not want to rebuild Beirut as it was. It lacked a lot of things in 1975. Communications, roads, electricity, and other things were not that good. Instead we want Beirut to be a city of the 21st century. We might see an agreement with Israel coming out of the negotiations [following the Madrid conference of 1991]. We should be prepared for it. But we cannot be prepared with the capital as it is now.”<sup>44</sup>

The narrative is of Hariri, the individual, having the vision to prepare Beirut for the competitive marketplace, which the “New Middle East” (minus the Arab-Israeli conflict) was going to be. Hariri’s self-image as an agent of modernisation is best summarised by Hariri’s business partner and friend Robert Debbas:

“In 87, I went to his [Hariri’s] office in Paris, and he passed me a paper to read. He said: ‘do read that.’ That was a summary of the newspapers of 1870 in Paris, about Haussman, all the titles and ... And Haussman, who made that Paris, was attacked by the press, by the people, that he’s a bastard, that he is ruining historic houses, doing this, doing that. And he told me: ‘What do you think of it.’ I said: ‘well, crazy. I didn’t know that Haussman was attacked so much.’ He said: ‘I accept to be attacked as much as he was attacked, I’ll do the [Beirut] project.’ There was lots of resistance. So he was aware that he would meet lots of resistance.”<sup>45</sup>

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<sup>44</sup> *Financial Times*, 9<sup>th</sup> July 1993, p. 14.

<sup>45</sup> Interview with Robert Debbas, Beirut, 27th February 2008.

Hariri's pursuit of reconstruction was not without an element of personal aggrandisement. Asked by one of his detractors why he wanted to rebuild Beirut, Hariri is said to have answered: "I want to immortalise my name."<sup>46</sup>

The idea of reconstructing Beirut as a neoliberal city originated not from Rafiq Hariri alone but also from the network of Lebanese and Saudi businessmen around him. The agency of this network is revealed when we look at the process of planning for reconstruction. As discussed in chapter 2, Hariri started planning the reconstruction of central Beirut in 1983. When the area reverted back into a zone of conflict in February 1984, Oger withdrew its planners to Paris. At the head of this group stood the engineer Charbel Nahas, who had started working for Oger during the post-invasion clean-up of West Beirut in 1982. According to Nahas, a debate about the shape of reconstruction was already taking place in 1985 and 1986.<sup>47</sup> He and his team of planners based their proposal for reconstruction on the interaction of three actors: a collection of several real-estate funds charged with sorting out the complicated claims to property rights of existing owners and tenants, a public agency in charge of the overall management of the project, and developers who were going to invest in the area. Crucially, the programming of the plan was based on two principles: Firstly, that the reconstructed city centre provides a space which would help unify a fragmented society, and secondly, that the reconstruction would be used to put in place necessary infrastructure, such as the core of a mass transit system, including metro stations.

As discussed above, the actual outcome was different: a single real-estate company took charge of the reconstruction project and the goal of profit maximisation created a segregated space, rather than one that is integrated into and serves the wider urban fabric. According to Nahas, the impetus for focusing on profit came from within Hariri's network: A group of Saudi and Lebanese businessmen around Hariri regarded Nahas' proposal – focused as it was on public needs – as an obstacle to profit maximisation through high-end luxury real estate. Nahas' account of competing visions of the city

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<sup>46</sup> The detractor was 'Umar Da'uq, a major landowner in the city centre and organiser of the property owners' opposition to the Solidere project. Interview with Raya Da'uq, Beirut, 26<sup>th</sup> March 2008.

<sup>47</sup> Interview with Charbel Nahas, Beirut, 2<sup>nd</sup> June 2008.

illustrates the social background, from which a neoliberal vision of Beirut emerged: the reconstruction of central Beirut was not primarily oriented on the needs of the city's inhabitants but the needs of a small elite of Gulf-based businessmen around Hariri. Urban space was to be commodified and marketed to international capital – especially Gulf capital. According to one author, the format of Solidere was based on a model created in Saudi Arabia for the renovation and reconstruction of areas surrounding the holy shrine in Mecca (Yahya, 2007 pp. 243, 261 FN 18). The example of the cities that had emerged in the oil-rich countries of the Gulf served as the benchmark for Beirut's reconstruction.<sup>48</sup>

Hariri placed his protégés in the top positions of the agencies in charge of reconstruction, namely the CDR and Solidere. However, other members of Lebanon's post-war confessional elite cartel managed to extract concessions from Hariri, forcing him to share the rent created by reconstruction. The strongest example of this were the more than US\$200 million in compensation paid to displaced persons living in the area, whose number is variously put at 18,000 or 21,000 (Leenders, 2004b p. 97). Since most displaced in central Beirut were Shi'i families originally from southern Lebanon, Amal and Hizballah acted as representatives of their interests (Sawalha, 2003 pp. 289, FN 289). Amal leader and parliamentary speaker Nabih Birri thus strengthened his position as someone who could channel benefits to his supporters. In 1995, Birri also managed to get his brother Yassir appointed to the board of the CDR. This appointment is likely to have played a role in the contract to build the coastal road from Beirut to the south in 1996. It was criticised by members of parliament for being overvalued and given without competitive bidding. The companies to benefit were Ittihad Contracting, Geneco, and Qassiun. Randa Birri, wife of parliamentary speaker Nabih Birri, owned a 20% stake in the first, Rafiq Hariri's brother Shafiq owned the second, and Qassiun is a quasi-state-owned company from Syria and hence thought to be linked to the Damascus regime.<sup>49</sup> The highway is thus an example of the way in which well-placed contractors benefited from contracts, the value of which appears to have been overblown. Birri could extract a share of the reconstruction rent due to his

<sup>48</sup> See for instance the comments by CDR vice-president Butros Labaki, as reported in: *Lebanon Report*, March 1994, p. 10.

<sup>49</sup> EIU, *Country Report: Lebanon*, 3<sup>rd</sup> Quarter 1996, p. 20. Leenders, 2004b p. 83.

ability to act as a “spoiler” for reconstruction, using both his position within the “troika” and the popular support he could mobilise. Other cases where members of the confessional elite cartel were taking their share in a reconstruction project was Elissar in the southern suburbs. Here, Hizballah and Amal monopolised representation of the predominantly Shi’i population there and used their position as intermediaries between the government and the inhabitants to strengthen their political position (Harb el-Kak, 2000). Hariri was in overall control of reconstruction but these examples illustrate that he had to share the resulting rents with other members of the elite cartel because of their ability to act as “spoilers”. The importance of Hariri protégés for rent-extraction through the CDR became clear when Hariri lost control of these institutions in late 1998: Solidere profits collapsed and only recovered after 2000, when Hariri was back in the prime minister’s post.

### 3.2.2. Institutions in charge of over-borrowing

Rafiq Hariri was firmly in charge of the institutions that governed over-borrowing. In March 1993 the CDR presented the “Horizon 2000” plan to the public. It included projections on the macro-economic framework, which was to govern reconstruction over the next ten years. Hariri had provided US\$5 million to finance the US\$6.9 million contract to the American Bechtel corporation, which put the plan together on behalf of the CDR.<sup>50</sup> This was even before Hariri was prime minister and shortly before his protégé Fadl Shalaq became head of the CDR. The Horizon 2000 plan was based on the assumption that reconstruction would “kick-start” the economy and lead to rapid growth. Real GDP growth was to reach 9.0% percent annually from 1995 to 1998, government debt was to peak at 90.9% in 1999 and then decline rapidly.<sup>51</sup> In reality, government debt reached 131% of GDP in 1999 and continued growing. The plan also contained overly optimistic projections for government budget deficits, the level of interest rates, and subsequent interest payments by the government. This gap can be interpreted in two ways. First, that Hariri and the technocrats who had drawn up the

<sup>50</sup> *Lebanon Report*, July 1991, p. 6

<sup>51</sup> Data reproduced in Shahin (2002 p. 190).

plan had tried to deceive the public in order to engage in the purely predatory over-borrowing that was to benefit Hariri's banks. Or secondly, that Hariri and his technocrats were simply naïve in believing that physical reconstruction of infrastructure would suffice to "kick start" the economy and outgrow debt. Judging which one is the case is virtually impossible but the existing evidence suggests naivety at least on the part of Hariri himself. Mazin Hanna was one of Hariri's "second generation technocrats" described in chapter 6. He worked on a World Bank-sponsored project on administrative reform and was later part of the team that negotiated with the IMF on behalf of the Hariri government in the run-up to the Paris II conference of 2002.<sup>52</sup> He argues that Hariri's opinion was the following:

"[...]he had to rebuild the country from scratch, and, believing that 'by spending today, I will be able to recuperate later on through economic growth'. And he never looked at the fiscal problem as a major problem in Lebanon until probably the year 2000. I imagine prior to that he always felt the economy can outgrow the debt issue."<sup>53</sup>

This interpretation suggests that Hariri truly believed the spirit of the projections of the Horizon 2000 plan. Fadl Shalaq blames Fu'ad Siniura for the misrepresentation of macro-economic projections in Horizon 2000 and that "the reasons for the mistake were from Siniura" and says further:

"Yes, he [Siniura] misled the IMF, he misled everybody. And then Hariri discovered it. He was discovering it in an open meeting in which Riyadh Salame was present and 15 other people."<sup>54</sup>

Shalaq later fell out with Siniura, so his aspersions on his former colleague should be treated with caution. The quotes by Hanna and Shalaq suggest that Hariri was unaware of the mechanisms that would lead Lebanon into a debt trap and that first generation technocrats such as Siniura did not point these dynamics out to him. Of course, Hariri stood to gain financially in either case: in case of growth he would have had ample investment opportunities, but in the absence of growth he could fall back on rents derived from government over-borrowing. This is why, if Shalaq's account is correct,

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<sup>52</sup> Hanna was the project director for the Administrative Rehabilitation Project of the World Bank. Hanna described himself as part of the team that was negotiating with the IMF, led by Minister of Economy and Trade Bassil Fulayhan. Interview with Mazin Hanna, Beirut, 3<sup>rd</sup> March 2008.

<sup>53</sup> Interview with Mazin Hanna, Beirut, 3<sup>rd</sup> March 2008.

<sup>54</sup> Interview with al-Fadl Shalaq, Beirut, 4<sup>th</sup> April 2008.

Siniura's misrepresentation in Horizon 2000 had very little effect on the technocrat's career. Siniura continued to enjoy Hariri's trust.

The supposed role of the financial sector in the reconstruction process was to channel foreign investment to Lebanon. Angus Gavin, one of the chief planners of the Solidere project, put it thus:

“As a re-emerging business centre, Beirut will find its new opportunities somewhat different from those that stimulated the growth of other centres in the region during the Lebanese war. In the past, growth depended on the recycling of oil revenues from the Arab world for investment in the West. New opportunities will no longer depend on the historic outflow of petro-dollars, but for managing the growing inflow of capital that needs to be directed toward investment sectors and identified projects – initially within Lebanon and later, in a new order of security and cooperation, throughout the region. Compared with other competing centres, Beirut is well placed to benefit from such emerging opportunities.” (Gavin, 1996 p. 36)

The upshot of this plan was that Lebanon's banks and depositors – including Hariri – were the beneficiaries. Looking at the economic data, the performance of the banking sector was inflated by rents from government over-borrowing, creating the illusion that services in general and finance in particular were indeed more “efficient” than agriculture and industry. However, this government-induced financialisation was a sign of Lebanon's malaise, rather than evidence of a wise economic strategy. In 1999 Hariri published a defence of government borrowing. He argued he was faced with three options in 1992: waiting for foreign aid, not incurring a deficit and following a prudent fiscal policy but foregoing reconstruction, or investing heavily in reconstruction and thus kick-starting the economy – but incurring debt, which would be made up by strong economic growth later (Hariri, 1999 pp. 21-24). However, he conveniently glosses over the fact that he and his technocrats did *not* expect massive debt. Horizon 2000 underestimated the rise in debt and wrongly forecast that debt would decline from 2001 onwards. Interest payments on government debt between 1995 and 2004 ended up being 1.9 times higher than the Horizon 2000 projections had suggested (appendix 4).<sup>55</sup>

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<sup>55</sup> The interest payments projected in Horizon 2000 are compared with public debt transactions as calculated by the World Bank (Shahin, 2002 p. 190; World Bank, 2005 p. 76).

The central bank is crucial to understanding government over-borrowing. As discussed in chapter 2, the central bank was powerless to prevent coordinated rounds of speculation by Lebanon's banks against the currency. This predatory rent-creation mechanism was unsustainable but Lebanese banks simply had very little other means of earning income after the economic collapse in 1982. In the post-war era, a new system of accumulation was required, within which the appropriation of surplus through rent would be stabilised and put on a more sustainable basis. Government over-borrowing was such a mechanism. But before it could be put into place, the central bank had to emancipate itself from speculating banks on the one hand and the militias on the other. The tension between central bank and militias came out in March 1990, when Walid Junblat backed interior minister Iliyas al-Khazin in a dispute with central bank governor Edmond Na'im. Al-Khazin was said to have overpaid on the printing of new passports and pocketed the difference with connivance of the printing company.<sup>56</sup> A compromise was struck, but the episode illustrated the greater ability of the central bank to stand up to the militias than had been the case during the 1980s.

From 1991 to 1993 Michel al-Khuri once again became central bank governor. According to 'Abdallah Bu Habib (2007, p. 178), Khuri had been Hariri's candidate to succeed Gemayel in the presidency in 1988 and hence a Hariri ally. It was under Khuri that Lebanon was put on the path of debt: From May 1993 onwards, the central bank started auctioning T-bills rather than fixing the price. It was from this moment onwards that government borrowing and over-borrowing as a rent-creation mechanism was put into place. This was central to the new system of accumulation, which the authors of *Horizon 2000* had thought would be sustainable but which led to debt. The benefit was that banks and depositors would share in the rents created by over-borrowing and would have no incentive to speculate against the Lebanese Pound, as had happened during the civil war. The last bout of speculation occurred in 1992 and had played a role in bringing Hariri to power. Prime Minister 'Umar Karami stepped down in May after the collapse of the value in the Lebanese Pound had led to trade union protests.

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<sup>56</sup> Lebanon Report, March 1990, p. 2.

The crisis was caused both by an inflationary rise in public sector wages and speculation against the pound, which has been interpreted by some as a politically motivated attempt to destabilise the currency and thus disrupt the upcoming parliamentary elections (Makdisi, 2004 pp. 97-98). When Hariri became prime minister in October, the currency immediately recovered. Whether this was due to the appointment of a businessman restoring “confidence” or because the bout of speculation had stopped is open to debate.

In a preceding part of this chapter, two studies published by the IMF were cited, which could not explain the movement of Lebanese interest rates with reference to the indicators that investors usually respond to in a “free market”. Instead, they pointed to “a home bias effect” (IMF, 2006 p. 26) and “socio-political conditions” (Urnechlian, et al., 1999 p. 37). In order to understand how this system came about, how it was sustained, and who benefited from it, it is necessary to examine the institutional mechanisms by which the treasury bills market was governed. In August 1993 Riyadh Salama became governor of the central bank. When his appointment was announced in May 1993, Beirut papers reported that Salama had previously managed Hariri’s personal finance portfolio at Merrill Lynch in Paris.<sup>57</sup> Hariri thus not only placed former employees at the head of the institutions in charge of reconstruction but also at the head of the central bank. Another central institution for controlling the mechanism of government borrowing and over-borrowing was the finance ministry. Formally, Hariri assumed the post himself, but installed Fu’ad Siniura as the man in charge at the rank of a minister of state. Siniura had of course been Hariri’s classmate in Sidon, a fellow activist in the Nasserite ANM, and had played a central role in running Hariri’s banking concerns.<sup>58</sup> Siniura had enjoyed a close working relationship with Michel al-Khuri between 1977 and 1982 when he was head of the banking control commission (BCC)

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<sup>57</sup> *MEED*, 4<sup>th</sup> June 1993, p. 27.

<sup>58</sup> Siniura had been Vice-chairman and managing director, Mediterranean Investor Group which owned Bank Med (1983-1992), chairman and managing Director, Bank Med (1984-1992). Fu’ad Siniura’s CV, as published on the website of the Lebanese prime minister, available at: <http://www.pcm.gov.lb/Cultures/ar-LB/Menu/%D8%B1%D8%A6%D9%8A%D8%B3+%D9%85%D8%AC%D9%84%D8%B3+%D8%A7%D9%84%D9%88%D8%B2%D8%B1%D8%A7%D8%A1/%D8%AF%D9%88%D9%84%D8%A9+%D8%B1%D8%A6%D9%8A%D8%B3+%D9%85%D8%AC%D9%84%D8%B3++%D8%A7%D9%84%D9%88%D8%B2%D8%B1%D8%A7%D8%A1/> viewed on 3<sup>rd</sup> August 2008.

while Khuri held the governorship of the central bank for the first time.<sup>59</sup> Siniura had assumed the post after Salim al-Huss – who had been Siniura’s professor at AUB – had stepped down as head of the BCC to become prime minister and had recommended his former student for the position of BCC president.<sup>60</sup> In 1982 Khuri had to bend to political pressure from Prime Minister Shafiq Wazzan who demanded that Siniura’s contract not be renewed. Siniura and Khuri therefore had a history of fighting off political interference by zu’ama and militia leaders in central bank affairs. It is easy to see how the experience of helplessly watching the speculation against the Lebanese pound shaped the desire by Khuri and Siniura to seize the levers of monetary and fiscal policy. Siniura described the experience Khuri and he had at the central bank between 1977 and 1982 in the following terms:

“Fu’ad Siniura [FS]: ...some of the banks used to speculate against the Lebanese currency. So, this again was one of the activities.

Hannes Baumann: Even before 1982 that was a practice?

FS: Oh yes. But the problem is that the financial situation of the treasury was really very bad. The government was not in full control of the sources of revenue, on the other hand the government had to really spend money in order to assure the services that are needed by the Lebanese, whether it is medical, educational, security, these are all matters that would require additional spending. So deficit spending was really high, and this has led to increased liquidity in the system, which really would constitute a great pressure on the Lebanese currency. So, again we had to really manage the interest rate properly, we had to manage the exchange rate, it was a difficult period. It is not an easy thing to really manage on the situation of really no control over the real factors of the whole thing.<sup>61</sup>

Siniura and Khuri gained “control over the real factors of the whole thing” in 1992.

Ironically, of course, Khuri thus opened the door to political interference in the central bank by the new contractor Rafiq Hariri.

Monetary and fiscal policy were coordinated in regular meetings of Hariri as prime minister, Siniura as acting finance minister, and Khuri as central bank governor – later

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<sup>59</sup> Interview with Fu’ad Siniura, London, 30<sup>th</sup> November 2010.

<sup>60</sup> Interview with Fu’ad Siniura, London, 30<sup>th</sup> November 2010.

<sup>61</sup> Interview with Fu’ad Siniura, London, 30<sup>th</sup> November 2010.

replaced by Riyadh Salama.<sup>62</sup> According to Siniura, the decision to stabilise the exchange rate and to prevent political shocks from disrupting it was based on a consensus between Hariri, Siniura, and Salama:

“At that time it was a decision that was taken collectively by the three of us so that we can guarantee, first of all, long-term sustainability of such a movement, that we have stability in the foreign exchange market, and at the same time to account for the situation within Lebanon that it can take such conditions without really had to bounce back because of other shocks that may really take place, and that was very possible.”<sup>63</sup>

Hariri and his allies had obtained control of the levers of monetary and fiscal policy. Michel al-Khuri was a Shihabist technocrat who allied himself with Hariri. Fu’ad Siniura had worked with al-Khuri at the central bank 1977 to 1982 and was a Hariri employee. He was acting finance minister. Finally, Riyadh Salama had reportedly been involved in managing Hariri’s wealth. In short, allies and employees of Hariri managed Lebanon’s monetary and fiscal policy. They put the rent-creation mechanism of government over-borrowing into place. Hariri did not himself develop the policy but Siniura, Khuri and Salama did – the Hariri technocrats.

While the central bank and the government were the sellers of T-bills in the market, they were faced with the banks as buyers. In the 1980s the relationship between the two parties had been acrimonious with regard to T-bills (the banks did not want to buy them), speculation against the Lebanese Pound (the central bank could not protect the currency against bank speculation), and banking failures (with banks taking excessive risks on currency speculation). The monetary and fiscal regime under Hariri was designed to reconcile the commercial banks and the central bank. High interest rates opened up the prospect of high returns without having to speculate against the Lebanese currency. On the contrary, the rent flow to the banks through high interest rates on government borrowing even managed to stabilise the currency. This way, Hariri would not have to face the political cost of speculation against the pound, which had brought down the government of ‘Umar Karami in 1992.

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<sup>62</sup> Interview with Fu’ad Siniura, London, 30<sup>th</sup> November 2010. Interview with Muhammad Shatah, Beirut, 13<sup>th</sup> February 2008.

<sup>63</sup> Interview with Fu’ad Siniura, London, 30<sup>th</sup> November 2010.

The suggestion of collusion between banks and central bank in keeping interest rates high is based on two arguments. Firstly, Hakim and Andary argue that T-bill auctions were designed in such a way as to drive up the interest rate, yet the exact mechanics of this manipulation are unclear (Hakim and Andary, 1997). The second argument is based on the structure of the banking system, which became increasingly concentrated during the 1990s, which would facilitate collusion (Gaspard, 2004 p. 218). This development is much easier to trace. In January 1993 parliament passed a law that encouraged the concentration of the banking sector, providing tax breaks and concessional loans for mergers or acquisitions (Makdisi, 2004 p. 113). A flurry of mergers and acquisitions followed. Another factor in the concentration of banks was that the biggest players took a larger share of the market. The share of the top five banks of total assets in the banking sector rose from 36.1% in 1992 to 44.4% in 1998 (Baz, various years). The rate of growth was largely determined by how ready banks were to buy up T-bills. The six largest holders of T-bills in 1998 accounted for 55.1% of all T-bills held by Lebanese banks and received 53.5% of the interest between 1994 and 1998 (Baz, various years). Conspicuous among them were Hariri's Bank Med, Bank Audi, and Banque Libano-Francaise. Banks who did not join the T-bill rally lost their leading position in Lebanese banking.<sup>64</sup>

The banks had to finance the purchases of T-bills by drawing in deposits. The deposit structure is highly concentrated, with 0.6% of the number of accounts holding more than 40% of total deposits, according to a report published in 2002 (UNDP, 2002, p. 77). The depositors were not simply anonymous participants in a free market, they can be analysed in terms of elites. First of all, economic elites had a far greater ability to benefit from government over-borrowing than ordinary Lebanese citizens because they had the necessary savings to deposit in Lebanese banks. The collapse of the currency and hyper-inflation 1984 to 1987 had wiped out the savings that Lebanese had held in their bank accounts. Continued high unemployment and stagnating incomes meant that most Lebanese did not have the necessary savings to benefit from

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<sup>64</sup> For instance, Arab Bank and BPNI had been the third- and fourth-largest banks by assets in 1991 – before the T-bill rally – but lost their dominant position in subsequent years.

high-interest T-bills (Fattouh, 1997). Meanwhile, those classes and elites who had managed to preserve or build up their wealth during the civil war period were looking for investment opportunities in the early 1990s. Former militia leaders had amassed great wealth during the civil war through control of trade within Lebanon as well as illicit dealings in drugs or weapons. A 2008 report on Lebanese government debt published by the IMF suggests that the Lebanese diaspora were the biggest investors in deposits:

“...anecdotal evidence from local banks suggests that the Lebanese Diaspora (most of whom have a Lebanese address) is the largest group of depositors. This Diaspora includes a significant share of high net worth individuals, many doing business in countries with underdeveloped banking systems.”  
(Schimmelpfennig and Gardner, 2008 p. 22)

Wealthy members of the Lebanese diaspora include remnants of Lebanon’s old bourgeoisie who were able to return their money to Lebanon. It also includes those involved in commerce in West Africa, a group which includes many Shi’i Muslims émigrés. However, the most significant section is likely to comprise the new contractor bourgeoisie. The report also points to the reason why non-Lebanese foreign investors tend to shy away from investing in Lebanese T-bills: high “information cost” and the fact that the market in government bonds effectively “freezes” in times of stress, i.e. no one is willing to buy Lebanese government bonds when a crisis occurs (p. 20). Most non-Lebanese foreign investors therefore tended to avoid Lebanese government bonds. Those foreign investors who did deposit funds in Lebanese banks or who bought up T-bills directly either sought to diversify their portfolio – hence investing only small portions of their overall funds – or they were able to “manage” the political risk. Wealthy Syrians fall into this category, as do non-Lebanese banks acting on the instruction of Lebanese clients.<sup>65</sup> In summary, there was a class of very wealthy Lebanese – which included Hariri – which effectively mediated between global financial markets and the market in Lebanese government debt.

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<sup>65</sup> The case of Capital Investment Services (CIS) and the UK-based Royal Bank of Canada Investment Management is typical. They created a fund of US\$20 million to invest in high-rate Lebanese government Treasury bills. Yet the initiative to invest in these instruments had come from CIS’s customers – Lebanese and Arab investors. EIU, *Country Report, Lebanon*, 3<sup>rd</sup> Quarter 1996, p. 24. Foreign banks such as Germany’s Commerzbank tend to engage in trade credit rather than investing in T-bills.

Economic orthodoxy based on neoliberalism's "utopian project" initially reigned supreme, as expressed in the Horizon 2000 programme. However, when the reconstruction of physical infrastructure and initial over-borrowing from the banks to "recapitalize" them did not "kick start" the economy, the mechanism of concentrating wealth by channelling rent-flows from tax-payers to depositors had to be maintained to prevent financial collapse. Rent-creation by government over-borrowing was thus an expression of the reconstitution of class power under conditions of neoliberalism, as diagnosed by authors such as Harvey (2005) or Dumenil and Levy (2005) as typical of neoliberalism. The class power that was restored belonged primarily to the new contractor bourgeoisie that had made its money in the Gulf, the former militia leaders and businessmen associated with them, members of the Syrian regime, and members of the old bourgeoisie. Hariri was the linchpin for putting this rent-creation mechanism in place: He had used Saudi support since 1982 to achieve the position of prime minister, translated the ideas of networks of a regional business elite, and hired the technocratic experts who could implement neoliberal policies.

### 3.2.3. Service ministries as patronage instruments

While Hariri had established control of the "right hand" of the state, former militia leaders tended to control the "left hand": Hariri was in charge of finance and reconstruction, while rival elites tended to be in charge of service ministries. Neoliberalism's bias towards strengthening the "right hand" at expense of the left then became an element in the relations between Hariri – as the representative of the new contractor elite – and the former militia leaders, as representatives of more popular constituencies. The political strategy of Nabih Birri, the leader of the Shi'i Amal movement, was particularly focused on capturing the state and using it as a patronage instrument. As early as 1984, he used his first foray into cabinet office to control the newly created ministry of state for the South and to gain influence on the CDR (Sayigh, 1994 p. 187). After the civil war, he became speaker of parliament, a position that had been beefed up at Ta'if. He retained control of the Council of the South, which conducted reconstruction projects among Birri's Shi'i constituency in south Lebanon. Birri also had many civil servants among his supporters. He therefore resisted efforts

to cut staff or to reduce salaries. Right from the moment that Hariri became prime minister, Birri sought to rein in the billionaire's ability to reshape the state, blocking his demand for exceptional powers (Legum, 1992 pp. 608-609). Birri and Hariri also clashed on issues such as pay rises for the public sector.<sup>66</sup> In October 1993, an ally of Nabih Birri - Samir Azar - took over the presidency of the finance and budget committee, which has a say on where spending is allocated.<sup>67</sup> While Hariri controlled the finance ministry, Birri's influence in the finance committee enabled him to at least influence the government's budget and financial policies.

Another agency under the control of a former militia leader was the Ministry of the Displaced, headed by Walid Junblatt from October 1992 to December 1998, when Hariri was prime minister. The Fund for the Displaced – which controlled the purse strings for the ministry – was headed by former Oger employee Antoine Andraus. When Hariri was out of office and Junblatt had lost his post, a report by his successor accused him of corruption and paying “political money” to maintain support.<sup>68</sup> Other former militia leaders or powerful *zu'ama* who headed service ministries were Elie Hubaiqa at electricity and water (1993-1998) and social affairs (1992-1994) as well as Sulaiman Franjiyyah, who held several posts, such as health minister (1996-1998).

Rent-creation and rent-sharing through service ministries is not in tune with neoliberal tenets, which aim to reduce government expenditure on social welfare and to target it to those who need them most. The first wave of neoliberal thought in the 1980s did not pay much attention to issues of poverty and inequality. Market reforms were supposed to trigger economic growth, which in turn was to result in a “trickle-down” effect by creating employment. By the 1990s the trickle-down effect had not materialised. Instead, neoliberal reforms had tended to exacerbate poverty because it had led to cutting subsidies on items such as fuel and food as well as job cuts in the public sector.<sup>69</sup> A second wave of neoliberal thinking therefore concerned itself with

<sup>66</sup> For instance: *MEI*, 4<sup>th</sup> September 1998, p. 14.

<sup>67</sup> EIU, *Country Report: Lebanon*, 1<sup>st</sup> Quarter 1994, p. 13. ('Atallah, 2000 p. 25)

<sup>68</sup> *MEI*, 9<sup>th</sup> April 1999, p. 11.

<sup>69</sup> For a summary of the failure of neoliberal policies to tackle poverty, see Evans, 2008 pp. 276-281.

alleviating the detrimental effects of neoliberal reforms by putting in place a “social safety net” of targeted financial support to groups in greatest need, rather than blanket subsidies that benefit middle class consumers, too.<sup>70</sup> These two waves of neoliberal thinking about social welfare were reflected in the approach to poverty by Hariri and his technocrats – for both ideological and political reasons. In the 1990s Hariri did not concern himself much with economic deprivation, making him vulnerable to attack by the more populist former militia leaders (see chapter 4 about the use of poverty estimates to attack Hariri). A battle line was therefore drawn between Hariri and the former militia leaders. For instance, an effort by a World Bank project to compile a census of the civil service as well as students and teachers was blocked (World Bank, 2003 p. 9). Such a census would likely have uncovered over-staffing and “ghost employees” in state education. The episode illustrates the conflict between Hariri and other members of the elite cartel over the relative strength of the “left hand” and the “right hand” of the state.

Finally, close allies of Syria were in charge of the military and intelligence apparatus and the foreign ministry. Army commander Emile Lahud started opposing Rafiq Hariri’s agenda in Lebanon from very early on. The army also used strong-arm tactics to protect officers’ perquisites. For instance, when acting Finance Minister Fu’ad Siniura was rumoured to have lobbied against a law to raise the benefits of retired army officers in 1993, the army sent a unit to Siniura’s office. The law was subsequently passed.<sup>71</sup> In 1998 Emile Lahud succeeded Iliyas Hrawi as president after receiving strong Syrian support. He used his presidency to undermine the Solidere project and to curtail the rents earned from government debt management (see chapter 4). Lahud’s efforts at undermining Hariri’s economic and political power mirrored Shihab’s attacks of the pre-war bourgeoisie in the 1960s. Similarly, Michel al-Murr, defence minister and interior minister from 1994 to 2000, was a staunch ally of the Damascus regime.<sup>72</sup> He was a new contractor of sorts but had associated himself first with Gemayel and later with the Syrian regime (see chapter 2 for a short profile). He was so well-trusted

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<sup>70</sup> An expression of this thinking is a 2005 World Bank report about public finances in Lebanon and the need to provide “social safety nets” (World Bank, 2005).

<sup>71</sup> EIU, *Country Report: Lebanon*, 4<sup>th</sup> Quarter 1994, p. 12.

<sup>72</sup> The information on Murr is taken from Abdelnour (2003).

by Damascus that the regime put him in charge of the most important ministries for disciplining the Lebanese population – and controlling the electoral process, which is supervised by the interior ministry. As mentioned above, Murr used the ministry to further his business interests in quarrying. Finally, Faris Buwayz, foreign minister from 1992 to 1998, was a close ally to his father-in-law Iliyas Hrawi and as such considered reliable by Syria (Blanford, 2006 p. 49).

In summary, then, the division of state institutions in Lebanon is quite clear. The ministries often referred to as “sovereign ministries” in Lebanese parlance were in the hands of reliable Syrian allies: the ministries of interior, foreign affairs, and defence. Only two “sovereign ministries” were run by Hariri-allies: justice – headed by Bahij Tabbara from 1992 to 1998 – and finance. Together with the central bank and the CDR the finance ministry formed a triangle with which Hariri and his technocrats managed the main rent-creation mechanisms of the immediate post-war era: reconstruction and government debt management. Finally, former militia leaders headed the “service ministries” in order to channel patronage to their clientele.

#### **3.2.4. Institutions in charge of regulation**

Neoliberal economic orthodoxy is not necessarily opposed to monopolies as long as “entry” is possible and new firms can challenge old ones. However, critics of neoliberalism argue that it leads to the concentration of corporate power and the creation of monopolistic structures which may even be protected by the state and are central to the accumulation of capital (Harvey, 2005 pp. 67, 80; Wallerstein, 2007 p. 26). In Lebanon, the state played a crucial role in maintaining the power of monopolies or oligopolies, benefiting different groups in society. Exclusive agencies were put in place in 1967 by the law of commercial representation. The main beneficiaries of this rule were the merchant families of the pre-war era, the majority of which were Christian.<sup>73</sup> Exclusive representation thus protected monopolies held by the families belonging to Lebanon’s pre-war bourgeoisie. In 1994, economy minister Hagub

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<sup>73</sup> *MEI*, 22<sup>nd</sup> February 2002, p. 18-19.

Damarjiyan proposed annulling commercial representation agreements.<sup>74</sup> The minister was considered an ally of Rafiq Hariri, having served on the board of Hariri-owned Bank Med.<sup>75</sup> Hariri could thus afford to attack the privileges of the old bourgeoisie in the name of liberalising the economy. However, the initiative came to nothing, probably because Hariri faced too much political opposition.

Oil importation is an example of a sector, which is dominated by those politicians who had benefited from the wartime economy. Leenders traces the way, in which the state tolerated the persistence of a cartel of importers that had formed during the civil war (Leenders, 2004a). Formally, the ministry of industry and oil was in charge of importing oil or at least regulating the sector. However, the ministry was headed by Shahi Barsumian, an ally of President Iliyas Hrawi. The president had previously represented the Swiss company GAT-oil, had been the managing director of Total-Liban until 1990, and was believed to have a stake in various oil-importing businesses thereafter. Similarly, Walid Junblatt and Nabih Birri were said to be connected to oil importers. During the civil war, the two militia leaders had controlled the import and distribution of oil in South Lebanon through the oil company COGECO (Picard, 2000 p. 314). Oil importation was thus a major interest of militia leaders and allied businessmen who had used it to come to wealth during the civil war. The oil ministry under Shahi Barsumian kept foreign competitors out of the Lebanese market and prevented a formalisation of the rules and regulations of importing oil, thus maintaining the dominance of the importers' cartel (Leenders, 2004a). These practices only came to an end after both Hrawi and Hariri had stepped down and Barsumian was arrested on corruption charges in March 1999.<sup>76</sup>

The duopoly in the telecommunications sector benefited businessmen who belonged to the group of new contractors and those who had achieved wealth due to their close relations with Syria. One recipient of a mobile phone contract was Cellis, owned by France Telecom (67%) and the Miqati family (33%). The brothers Najib and Taha Miqati

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<sup>74</sup> *Lebanon Report*, July 1994, p. 9

<sup>75</sup> *ANARAM*, 7<sup>th</sup> January 1985, p. 5.

<sup>76</sup> *MEI*, 9<sup>th</sup> April 1999, p. 10-11.

from Tripoli belonged to the new contractor bourgeoisie. They had accumulated their wealth as contractors in the Gulf but they did not enjoy the same strong political backing by the Saudi monarch as Hariri did. Instead, Najib Miqati allied himself with Syria.<sup>77</sup> The brothers had run the Arabian Contracting Company, which was active in the Gulf.<sup>78</sup> At one point Taha Miqati also took some subcontracts from Rafiq Hariri.<sup>79</sup> They were thus among the contractors who had been successful outside of Lebanon. They entered the Lebanese banking sector in the early 1980s, buying up the British Bank of Lebanon and the Middle East.<sup>80</sup> During and immediately after the civil war, the Miqati brothers ran an analogue mobile phone network in Lebanon (Exelby, 1998 p. 27). Najib Miqati's close ties to Syria allowed him to eventually become transport and public works minister in December 1998.<sup>81</sup> The second mobile phone contract went to Libancell, which was owned by Finland's Sonera (14%), the Saudi al-Mabani Group (20%) and a collection of Lebanese investors around Nizar Dallul, who eventually acquired majority control of the company (Exelby, 1998 p. 28; Oxford Business Group, 2003 p. 105). Nizar Dallul was also a son-in-law to Hariri. His father Muhsin was defence minister 1992 to 1998, had built his political career as a prominent member of the leftist Lebanese National Movement after the outbreak of the war in 1975, and was a staunch ally of Syria (Majed and Young, 1996 p. 53). Some sources further alleged that Dallul was fronting Libancell on behalf of Syrian vice-president 'Abd al-Halim Khaddam and Syrian Chief of Staff Hikmat Shihabi, but these allegations are not verifiable.<sup>82</sup> Dallul therefore represented the conversion of political influence and Syrian connections acquired during the course of the civil war into economic advantage in the post-war era. Despite their close political connections to Syria, Hariri took a confrontational line with the mobile phone companies. In 1995 there were rumours that he would break the duopoly by allowing a third operator to enter the market.<sup>83</sup> As the debt situation worsened, Hariri discovered the mobile phone companies as a source of government revenue. In 1997 the government forced the mobile phone operators to increase their prices and to pay the resultant windfall to

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<sup>77</sup> *MEED*, 21<sup>st</sup> November 2008, p. 74.

<sup>78</sup> *MEED*, 21<sup>st</sup> November 2008, p. 74.

<sup>79</sup> Interview with Sabah al-Haj, Beirut, 8<sup>th</sup> November 2008.

<sup>80</sup> *ANARAM*, 19<sup>th</sup> December 1983, p. 8.

<sup>81</sup> *MEED*, 21<sup>st</sup> November 2008, p. 74.

<sup>82</sup> *MEIB*, January 2003, available at: [http://www.meib.org/articles/0301\\_l2.htm](http://www.meib.org/articles/0301_l2.htm).

<sup>83</sup> EIU, *Country Report: Lebanon*, 4<sup>th</sup> Quarter 1995, p. 14.

the government.<sup>84</sup> In effect, Hariri thus raised the tax on mobile phone usage. By 1998, revenue from both fixed line and mobile phone operations accounted for 7.0% of all fiscal revenue (World Bank, 2005 p. 77).

The discussion of these three examples of wealth concentration through regulation reveals that different mechanisms benefited different groups: The old bourgeoisie was clinging on to exclusive agency, former militia leaders and allied businessmen were controlling oil imports, and a mixture of new contractors and Syrian allies were benefiting from mobile phone licenses. Hariri was not benefiting in a major way from the rents produced by these particular mechanisms. He could therefore afford to take a combative stance towards the “inefficiencies” of exclusive agency, the oil import cartel, or the mobile phone duopoly. Hariri’s confrontation with other members of the elite cartel over rent mechanisms that sustained many of his opponents was to grow worse after 2000, when Hariri returned to office and tension in the field of international politics negatively affected relations within the elite cartel.

### **3.3. The political sociology of neoliberal rent-creation**

By relating the way in which Lebanese state institutions were colonised by specific types of elites, it is possible to return to the wider framework on neoliberal politics and to locate agency in this neoliberal politics. Hariri and his technocrats pushed for neoliberal economic and political project. As the owner of the transnational contracting company Oger and as owner of internationally operating banks, Hariri was a “transnational” capitalist. Similarly, the Hariri technocrats who developed and implemented the neoliberal rent-creation mechanisms were the “globalising elites” (Gill, 2003 p. 154) or “globalising bureaucrats” (Sklair, 2000 p. 15) who drive forward a neoliberal agenda from within the state. What the preceding chapter has shown, however, is that the neoliberal economic and political project of Hariri and his technocrats needs to be understood within the context of a specific Lebanese “political

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<sup>84</sup> *Lebanon Report*, Fall 1997, p. 18-19.

field”, with a specific historical sociology of classes, types of elites, state institutions, and international relations. In order to understand “really existing neoliberalism” in Lebanon, it is necessary to also look at rival elites who followed a different economic and political logic. Former militia leaders were seeking side-payments from neoliberal rent-creation mechanisms. They were able to do so because they could act as spoilers. Moreover, they colonised “service ministries”, which they used as patronage instruments. Finally, the military and intelligence establishment derived its power from a state with authoritarian characteristics, which could curtail the power of capitalist classes such as the new contractors. The different groups are now discussed in turn.

The new contractor bourgeoisie had replaced the pre-war commercial-financial bourgeoisie as the dominant capitalist class in Lebanon. This was due to a shift in Lebanon’s role in the capitalist world economy and the loss of its function as financial intermediary between Arab East and Western financial markets. The families who had controlled finance and commerce during the pre-war era had lost influence relative to the newcomers who derived their wealth from access to rents earned in the Gulf and to a lesser extent Africa. Rafiq Hariri was not the only exponent of this class. It also included Najib Miqati, ‘Issam Faris, and Muhammad Safadi. The phenomenon of new capitalist factions arising is not unique to Lebanon. Lebanon’s new contractor bourgeoisie arose from the oil boom in the 1970s but elsewhere it was neoliberal market reforms that created new capitalists in liberalised sectors such as telecommunications, construction, and the media. Well-known examples elsewhere include Carlos Slim in Mexico, Thaksin Shinawatra in Thailand, and Silvio Berlusconi in Italy. Some of the businessmen just mentioned famously entered politics, just as Hariri did.

The new contractor bourgeoisie did not act as a class but in the Lebanese context it is better understood as a type of elite. By moving beyond the category of class, exclusively defined by the relationship to the means of production, it is possible to “Lebanonise” the new contractors and to place them into the specific historical sociology of Lebanon. It is then possible to look at the networks that Hariri was

embedded in and the networks he built in Lebanon. The story of neoliberalism in Lebanon can therefore not be understood with reference to a decentred “Empire” consisting of global capitalism’s “biopolitical machine” (Hardt and Negri, 2000), nor the needs of “global” (i.e. US American) capital (Dumenil and Levy, 2004b), nor with reference to direct pressure by a United States government, eager to maintain its economic predominance through capitalist expansion (Harvey, 2005; Gowan, 1999), nor a transnational capitalist class sweeping across Lebanon without regard for the elites, classes, or institutions that were part of the nation-state’s “political field” (Robinson, 2004; Sklair, 2000). Instead, Hariri and his network put in place neoliberal rent-creation mechanisms and met resistance from rival elites with their own specific histories. Hariri’s biography thus provides the “careful mapping of the neoliberal offensive” (Peck and Tickell, 2002 p. 381) that is required to explain the dynamics of “actually existing neoliberalism” in Lebanon. The Hariri network has a specific history and the shape and the limits of the neoliberal economic and political project in Lebanon were determined to a large extent by the opposition by rival elites.

The reconstruction of central Beirut has a specific history linked both to Hariri’s personal experience and his embeddedness in the networks of Gulf capital. Hariri was a contractor himself, so the idea of basing economic reconstruction in post-war Lebanon on the reconstruction of physical infrastructure came naturally. His “vision” was based on the fallacy that physical buildings would create a sufficient basis for a new system of accumulation. Instead, the Lebanese economy was integrated into the rentier system of the Saudi oil-monarchy. Talk of “competitiveness” that would attract “international investors” was therefore something of a farce, mirroring the tragedy of the pre-war laissez faire system. While Hariri’s personal “vision” for reconstructing Beirut was important, the network of Saudi and Lebanese businessmen around him was crucial in shaping the reconstruction project. It was their desire to maximise profits by realising the maximum land rent from the reconstructed city centre which determined the contours of the Solidere project: the transfer of property rights to a private developer and marketing the city centre to international (especially Gulf) investors. Finally, Rafiq Hariri put technocrats who were former employees of his construction companies at the head of the institutions in charge of reconstruction.

Rent-creation through government debt management was also driven by the network around Rafiq Hariri. Lebanon tread a unique path to “financialisation”, a wider phenomenon that is typical of neoliberal economic and political projects (Duménil and Levy, 2004a). Government over-borrowing was designed to stabilise the exchange rate. The policy needs to be understood with reference to the wartime experience of the technocrats in charge of government over-borrowing. The Shihabist technocrat Michel Khuri had been the governor of the central bank in from 1977 to 1984 and had been unable to rein in currency speculation by Lebanese banks and to contain the “Kata’ibisation” of the Lebanese state under President Amin Gemayel. In the late 1980s he seems to have formed an alliance with the new contractor Rafiq Hariri who reportedly supported Khuri as a successor to Gemayel. Another link is Fu’ad Siniura, who was forced out of the central bank’s banking control commission in 1982 against Khuri’s wishes. Siniura then went on to head the Hariri-owned Bank Med. In 1991 Khuri returned to the governorship of the central bank, while Siniura became acting finance minister in 1992. The two men, together with Hariri, made the decision to sell Lebanese debt by auction. Riyadh Salama, who reportedly managed Hariri’s account at Merrill Lynch, then formalised the policy of over-borrowing in an effort to prop up the Lebanese currency. Salama became central bank governor in 1993. The Horizon 2000 paper of 1993 documents the attitude of Hariri and his technocrats towards debt. Debt was considered bearable because a stable currency would help “kick-start” the Lebanese economy. Once the stabilisation mechanism was in place and Lebanon had fallen into a debt trap, the mechanism had to be maintained at all cost. This meant keeping banks and depositors on board. Several indications point to the new contractors as strongest the section among investors in Lebanese debt – most of all Hariri and his Bank Med. As discussed in chapter 6, this unsustainable system was eventually propped up by Saudi Arabia, which effectively provided an implicit guarantee for Lebanese debt in 2002 (Schimmelpfennig and Gardner, 2008 p. 19). The Lebanese economy thus became fully dependent on the Saudi rentier state for avoiding financial crisis.

Another revealing example of a new contractor appropriating rent in post-war Lebanon is Najib Miqati's mobile phone network. Cellis was one half of a lucrative duopoly that benefited from a fast-expanding mobile phone market in the 1990s. However, Miqati did not gain control of the institutions that regulate the market. This stands in contrast to Hariri's control over reconstruction and government debt management. Miqati could therefore not prevent the Hariri government from appropriating a share of mobile phone profits for the treasury – with the telecommunications ministry run by Rafiq Hariri himself and the finance ministry by Fu'ad Siniura. Hariri was not the only new contractor seeking to create and appropriate rents but unlike the others, he was in control of several rent-creation mechanisms.

The second group that needs to be “Lebanonised” – analytically speaking – are the Hariri technocrats who developed and implemented neoliberal rent-creation mechanisms as heads of government ministries and agencies (appendix 5). They are “globalising bureaucrats” (Sklair, 2000 p. 17) or “globalising elites” (Gill, 2003 p. 154). They were all employees of Hariri's banks and construction companies. The most prominent ones were acting finance minister Fu'ad Siniura who had headed Hariri's Bank Med between 1983 and 1992, CDR President Fadl Shalaq who had worked for Oger as an engineer, and Riyadh Salama who reportedly managed Hariri's account at Merrill Lynch before becoming head of the Lebanese central bank. A closer examination of the background of these protégés reveals the way in which sectarian dynamics played into institutional dynamics governing rent-creation. The most important fact to note is that the Hariri protégés came from a variety of confessional backgrounds and not only from his own Sunni community. This accords with Wallerstein's observation that the “cadres” of economic management are recruited according to “universal criteria” (Wallerstein, 2007 p. 40). This trend becomes even more obvious when we look at the “second generation” of Hariri protégés, discussed in chapter 6 and appendix 15. The most senior first generation technocrats did share Hariri's background as Sunni Muslims from outside Beirut: Fu'ad Siniura, Fadl Shalaq, Nabil al-Jisr, Farid Makari. In some cases the explanation stems from a strong alliance built over many years, such as Fu'ad Siniura from Sidon. More importantly, however, this was a group of people which was more open to attach themselves to someone like

Hariri – a Sunni from Lebanon’s periphery. Christians and Sunnis from Beirut were more likely to ally with political leaders from their own community, which represented the centre of power in Lebanon at the time. Beirut Sunnis would attach themselves to one of the powerful political families of the capital rather than a newcomer from Sidon. Similarly, during the sectarian civil war, Christians would have been wary of throwing in their lot with a Sunni Muslim businessman. When Hariri then became prime minister and was looking for loyal personnel to promote to government positions, he drew from this repository of trusted experts he had built up since the late 1970s. In short, these dynamics are not necessarily evidence of Hariri’s sectarian mindset but show how structural factors shaped these choices.<sup>85</sup> At times, the sectarian logic of Lebanese politics directly influenced the recruitment of protégés. The governor of the central bank has to be a Maronite Christian, so Hariri chose Riyadh Salama for this position. He had already upset the sectarian distribution of government posts by insisting on a Sunni finance minister against the opposition of Nabih Birri, who wanted a Shi’i in the post (Legum, 1992 pp. 608-609).

While Hariri and his technocrats were pushing for a variety of neoliberal rent-creation mechanisms and the neoliberal restructuring of the state, the former militia leaders were pursuing a very different economic and political logic. They practiced a populist clientelism along sectarian lines. The provision of public services and jobs to their clientele gained great importance for the political survival of former militia leaders such as Nabih Birri or Walid Junblat. The former used mainly the Council of the South, the latter primarily the Ministry for the Displaced. This use of state welfare resources for patronage ran counter to the neoliberal logic of either cutting social welfare or targeting the most needy. In the 1990s, competition between the former militia leaders and Hariri remained manageable because Saudi-Syrian concord persisted and because the former militia leaders received “side payments” from neoliberal rent-creation mechanisms. They extracted these side-payments by demonstrating that they could act as “spoilers” by applying a veto in institutions or through popular pressure. Solidere’s pay-off to the displaced persons in Beirut’s city centre, managed by Amal, is

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<sup>85</sup> Similar dynamics can be observed in the sectarian alliances of military coup plotters in the 1950s and 1960s in Syria and Iraq (Batatu, 1978; van Dam, 1996).

a good example of the way in which side payments were extracted. Further examples of the way in which popular opposition to neoliberal policies were brought under the control of former militia leaders or Syrian allies to be used against Hariri are described in chapter 4.

Finally, the military and intelligence establishment relied on its close alliance with Syria to extend its reach in Lebanese society and politics. For actors such as Emile Lahud, political control was more important than extracting rents, although the perquisites paid to military officers were something of a rent. As president after 1998, Lahud and his network tried to curtail Hariri's rent-creation mechanisms. In particular, Lahud attacked Solidere and prevented the opening up of the mobile phone market, which Hariri pursued after 2000. Lahud thus stood in the tradition of the previous army commander who had become president, Fu'ad Shihab. While Shihab had tried to use the state to undermine the economic power of the pre-war bourgeois families, Lahud attacked the power of the new contractor Rafiq Hariri. Lahud allied with the last influential Shihabist technocrat, the Sunni Muslim politician Salim al-Huss who succeeded Hariri as prime minister at the end of 1998. His finance minister George Qurm also stood in a Shihabist tradition, although he was slightly younger. It is to Hariri's time out of office 1998 to 2000 that we must now turn in chapter 4.

### 3.4. Why did Lebanon fail to achieve sustained economic growth after 1990?

The question why Lebanon failed to achieve sustained economic growth cannot simply be answered with reference to whether there was “too much” or “too little” neoliberalism, in other words, whether Lebanon implemented the Washington Consensus policies or not. “Actually existing neoliberalism” is always uneven because neoliberalism is contradictory as an economic project and because its implementation represents a political project. In Lebanon, this politics is best understood with reference to different types of elites. Rafiq Hariri was a new contractor and pushed for a neoliberal reconstruction of Lebanon that would make the country “competitive” by making it attractive to investors such as himself. The technocrats he had hired developed and implemented neoliberal rent-creation mechanisms: reconstruction and government over-borrowing. In pursuit of these goals, Hariri and his technocrats colonised and strengthened the “right hand” of the state. Rival elites – especially the former militia leaders – used “service ministries” as patronage instruments, while a variety of elites used market regulation or the lack thereof to appropriate monopoly rents. It is this political constellation – this “political settlement” – which was the cause of Lebanon’s failure to achieve sustained economic growth between 1992 and 1998. Annual real GDP growth reached a strong 7.0% in 1993 and 8.0% in 1994 but slowed down to a meagre 2.6% in 1998, when Hariri stepped down.<sup>86</sup> Government over-borrowing kept inflation low by preventing currency crises and by appreciating the value of the Lebanese pound. However, this came at the cost of skyrocketing government debt. As discussed in chapter 4, rising government debt “crowded out” private sector investment, thus depressing economic growth. Furthermore, while inflation was low, living costs were kept high by monopolistic market structures protected by Lebanon’s political elites. Hariri and his technocrats would maintain that their policies were fundamentally sound. If only the former militia leaders and the military and intelligence establishment – in collusion with their Syrian overlords – had not sabotaged the neoliberal restructuring of state and economy, Lebanon would have

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<sup>86</sup> International Monetary Fund, *World Economic Outlook Database*, October 2009, available at: <http://www.imf.org/external/pubs/ft/weo/2009/02/weodata/index.aspx>

achieved high economic growth.<sup>87</sup> This counter-factual cannot, of course, be disproven, but the record of the rent-creation mechanisms that Hariri did manage to push through – Beirut’s reconstruction and government over-borrowing – does suggest that these neoliberal policies themselves were ruinous and largely self-serving.

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<sup>87</sup> See, for instance, Nizameddin (2006) who is not a Hariri technocrat but argues that Hariri’s project was stifled by Syria’s allies. The same argument was also put forward by Muhammad Shatah. Interview with Muhammad Shatah, Beirut, 13<sup>th</sup> February 2008.

#### 4. Social crisis and resistance to neoliberalism 1992-1998

Chapter 3 dealt with the way rent-creation worked and who appropriated rents. The main actors were different types of elites, with Hariri and his technocrats pursuing a neoliberal economic and political project, while the former militia leaders and other rival elites were following different political and economic logics. Rent creation mechanisms such as reconstruction and government debt-management were following a neoliberal logic and were benefiting primarily the new contractor bourgeoisie. Meanwhile, former militia leaders were using “service ministries” as patronage instruments.

This chapter looks at the effect of neoliberal rent-creation on the wider population, namely those Lebanese who did not appropriate rents created in the post-war economy. Widespread poverty and deprivation persisted, the growth of small and medium sized businesses was stifled, especially in agriculture and industry, and the majority of Lebanese continued to rely on resources controlled by the political elite for services such as education and healthcare. Lebanon’s post-war economy thus provided the material basis for sectarian clientelism. The second section examines resistance to neoliberal policies: opposition by Beirut’s pre-war bourgeoisie and popular classes to the reconstruction of Beirut’s city centre, trade union protests against stagnating wages and rising inflation, and the “revolt of the hungry” by agricultural workers in the Biqā’ valley. Popular protest came to be clientelised by Hariri’s political rivals and was used tactically against Hariri, while leaving his neoliberal strategy intact. What started off as resistance to neoliberal policies turned into instruments for political elites to push for a greater share of rents to redistribute to their following.

#### 4.1. Social crisis in Lebanon

Contrary to claims by neoliberal economists and by the World Bank, the liberalisation of trade and finance have not reduced poverty and inequality but have tended to exacerbate them (Kiely, 2007). Similarly, the neoliberal rent-creation mechanisms put in place by Hariri and his technocrats led to the continuation of widespread poverty and deprivation. The majority of Lebanese continued to rely on resources controlled by the political elite for access to education and health services.

A common charge against debt management by the Hariri governments was that over-borrowing hurt the private sector and undermined growth through “crowding out”, which occurs when government uses up scarce credit and pushes up interest rates, making credit unaffordable for many private businesses. Hariri technocrats have argued that very little crowding out actually occurred, but evidence – discussed in detail in appendix 6 – suggests otherwise. Evidence on the demand side illustrates that Lebanese businesses were suffering from a lack of credit, suggesting that crowding out did take place. A World Bank study of small and medium enterprises (SME) in 1995 found that lack of bank services was the greatest concern, followed by lack of infrastructure (World Bank, 1995 p. 7). While Hariri’s policies addressed the latter issue through reconstruction, government over-borrowing actually exacerbated the lack of credit. The World Bank survey showed that bank loans accounted for only 11% of firms’ working capital and 19% of investment capital, while personal savings and profits were the main source of financing (World Bank, 1995 p. 9). Another study commissioned by Lebanon’s Economic and Social Council in 2002 identified monetary policy and the resultant lack of credit as one of the main obstacles to growth of SMEs (Nasnas, 2007 pp. 221-242). Like deposits, credit was highly concentrated. In December 1998, less than one percent of beneficiaries accounted for almost half of all

credit.<sup>1</sup> This suggests that the credit that was available went mostly to large-scale projects rather than SMEs. Credit was also highly concentrated in terms of sectors, with services receiving the bulk of lending. In 1998, trade and services accounted for 44.8% of total credit, construction took 21.9%, while the share of the “productive sectors” agriculture (1.5%) and industry (excluding construction, 12.6%) was much smaller.<sup>2</sup> This unequal distribution of credit also shaped the structure of the economy. The share of services in GDP rose from 60.9% in 1994 to 71.7% in 2005. In contrast, the share of agriculture fell from 12.0% to 7.3% and manufacturing from 27.1% to 21.0%.<sup>3</sup> While the different categories of credit- and GDP by sector are not strictly comparable, they do reveal the way in which banks’ bias towards services and construction undermined agriculture and manufacturing. In sum, the scarcity of credit was a major factor in stifling growth among SMEs and in the agricultural and industrial sector. Rather than providing a “kick-start” to the economy, government over-borrowing actually stifled private sector growth.

In an environment in which credit was scarce and where red tape was hindering business, Hariri could use his bank ownership and influence in the administration as patronage sources. Hariri would provide credit to projects of allied politicians or businessmen. In 1996, for instance, Hariri’s Bank Med helped to raise US\$20 million for Sibling, the cement company owned by Walid Junblatt and in which the bank had a stake.<sup>4</sup> As mentioned in chapter 2, Hariri’s bank had first started supporting Junblatt’s cement venture in 1985, when he sought to win over the militia leader to the Syrian-sponsored militia agreement. In order to help investors cut red tape, Hariri established the Investment Development Authority of Lebanon (IDAL) in December 1994, which was headed by a close ally of Hariri (Najem, 2000 p. 161). This led to a twisted perception of Hariri’s business abilities: investment projects supported by Hariri were likely to be successful because of access to credit and support in overcoming administrative obstacles. Yet the Hariri technocrats themselves had put in place the

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<sup>1</sup> 0.9% of beneficiaries accounted for 49.5% of credit above LL5 billion. Banque du Liban, *Quarterly Bulletin*, 4<sup>th</sup> quarter 1998, p. 67-68.

<sup>2</sup> Banque du Liban, *Quarterly Bulletin*, 4<sup>th</sup> quarter 1998, p. 49.

<sup>3</sup> World Bank, World Development Indicators database, September 2009, available at: [http://www.esds.ac.uk/international/access/dataset\\_overview.asp#desc\\_WBWDI](http://www.esds.ac.uk/international/access/dataset_overview.asp#desc_WBWDI).

<sup>4</sup> EIU, *Country Report: Lebanon*, 2<sup>nd</sup> Quarter 1996, p. 20.

policy of over-borrowing, which was the source of crowding out, and hence the reason why other projects – not supported by Hariri – were having a hard time. Hariri was of course not the only actor who could offer preferential access to credit or political support to deal with bureaucratic obstacles, but he was certainly the main one.

The difficulties of SMEs and of agriculture and industry have been identified as causes of unemployment, poverty, and deprivation (UNDP, 1997 pp. 56-57). Unemployment remained high, with unofficial estimates tending to exceed 25% (Gaspard, 2004 p. 215). The structure of employment is shaped by Lebanon's service-based economy. About a third of total employment in Lebanon was non-waged in 1997, with only 1% skilled manufacturing labour (Gaspard, 2004 p. 86). 42% of household income is derived from sources other than wages (Gaspard, 2004 p. 96). Non-wage income consists of interest and rent (19% of total income), property sale (7%), assistance – such as financial assistance from family or relatives or grants (9%), and a residual category including pensions or inheritance (7%). From these data it is possible to gauge the vulnerability of households to clientelism (see appendix 7). A large section of non-wage labour occupies a precarious position in Lebanon's "competitive service economy" (Johnson, 1986 p. 38), such as taxi drivers, small shop owners, or street peddlers. Because demand for regular wage labour among the unemployed and those in precarious service jobs outstrips the supply of regular waged labour, those who can provide such employment – in public or private sector – enjoy strong patronage power. As discussed in chapter 3, savings, deposits, and investment are concentrated among a very small section of Lebanese. Similarly, property sales are only an option for people of relative wealth. Hence, income from interest or rent and from property sales – comprising about a quarter of total income – are virtually irrelevant to Lebanon's poorest households. Similarly, waged employment is scarce and unavailable to many. The share of "assistance" for these poor households is thus much higher than the 9% average for all households. Much of this will derive from remittances. Emigration has traditionally been a solution to Lebanon's unemployment problem and the resultant remittances amounted to a high 36.4% of GDP in 1992, a share which fell to 7.2% in

1998 due to the falling value of remittances.<sup>5</sup> However, a lot of poor or deprived families relied on financial support from charities connected to politicians. Charity to the poor is therefore a means of patronage for Lebanese politicians.

This is particularly true for those households who live in poverty or deprivation, the incidence of which was high in post-war Lebanon. The first post-war assessment of poverty was a UN-ESCWA report of 1996, authored by Antoine Haddad. He estimated that 28% of Lebanese families were living below the poverty line, estimated at a monthly income below US\$618 per month (Haddad, 1996 p. 4). The report went largely unnoticed until the autumn of 1996, when Walid Junblatt used its findings to attack Hariri, with whom he was in political conflict at the time.<sup>6</sup> The issue of poverty thus became politicised, meaning that it became an issue of intra-elite conflict. Haddad's expertise became an instrument for Junblatt to pressure Hariri. The prime minister, in turn, was keen to counter the suggestion that poverty was a major problem or indeed that his policies were the cause for its persistence. Hariri therefore initiated a more rigorous study of deprivation in Lebanon conducted by the UNDP and the Central Administration of Statistics (CAS), resulting in the "mapping of living conditions" survey of 1997 (UNDP, 1998). It was conducted by social scientists who were considered independent of Hariri such as Kamal Hamdan and Adib Na'ma. In the absence of reliable household income data, the report looked at unsatisfied basic needs, namely housing, water and sewerage, education, and income-related indicators. It found that the basic needs of 32.1% of Lebanese households went unsatisfied, confirming the findings of the earlier ESCWA study – much to Hariri's discomfort.

The government did not formulate a coherent policy to reduce poverty but counted on "trickling down" effects. In a statement to the World Summit for Social Development

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<sup>5</sup> World Bank, World Development Indicators database, September 2009, available at: [http://www.esds.ac.uk/international/access/dataset\\_overview.asp#desc\\_WBWDI](http://www.esds.ac.uk/international/access/dataset_overview.asp#desc_WBWDI)

<sup>6</sup> EIU, *Country Report: Lebanon*, 1<sup>st</sup> quarter 1997, p. 12. Interview with Adib Nehmeh, Beirut, 22<sup>nd</sup> February 2008.

in Copenhagen in 1995, Lebanon's national report explained the government's stance thus:

“Lebanon has a liberal economic system, where the role of the state is limited to formulating the legal, institutional, and infrastructural framework necessary for economic growth [...] Therefore plans to combat poverty and unemployment do not appear as independent stand-alone plans, but form part of the overall comprehensive framework of the reconstruction and development plans, which place priority on ensuring the demands of economic growth.”<sup>7</sup>

The most important mechanism for providing public services or even to redistribute income is progressive taxation. In December 1993, a new tax law was passed, drafted by the finance ministry controlled by Hariri. It followed neoliberal assumptions about tax, combining “a broad tax base with moderate marginal tax rates” (Williamson, 2004 pp. 2-3). Neoliberal tax reforms revolve around cutting direct taxes (e.g. income tax), expanding indirect taxes (e.g. value added tax - VAT), and a decline in customs tariffs (Mahon, 2004 p. 4). Low corporate taxes were to improve international competitiveness and encourage investment and low personal income tax was to reward personal ambition and encourage wealth creation (Glyn, 2006 pp. 159-167). VAT was a tax that was easily administered and was to replace high customs and excise charges which curtailed free trade. Hariri cut direct taxes to between 3-10% for corporate tax and 2-10% on personal income tax (Dah, et al., 1999 pp. 10-12). Significantly, treasury bills were exempted from the 5% capital gains tax. While cutting direct taxes, the Hariri government increased indirect taxes. Customs and excise remained the biggest contributor to government revenue at 43.1% in 1998, compared to only 7.2% from taxes on incomes and profits – a share which is minuscule compared even to other Middle Eastern countries, where income tax represents a smaller share than in industrialised countries (World Bank, 2005 p. 77; Henry and Springborg, 2001 p. 77). Hariri pushed for raised revenue from telecommunications (7.0% after being virtually non-existent in 1996) and administrative fees (8.5%, up from 2.1% in 1996). These revenue increases were achieved against strong opposition from Nabih Birri who was trying to protect his popular constituency from rises in surcharges on petrol,

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<sup>7</sup> Quoted in Khalidi-Beyhum, 1999 p. 43.

cigarettes, mobile phone use, or fees on passports.<sup>8</sup> In the end, Birri managed to prevent policies such as the introduction of value added tax (VAT) and fee rises at the state-run Lebanese University. The overall effect of cutting direct taxes and raising indirect taxation was to make income distribution even more unequal. According to one analysis of Hariri's tax law of 1993, the distributive effect of lowering direct tax rates was neutral but the rise in indirect taxes tipped the balance towards a regressive tax system (Dah, et al., 1999 pp. 28-34, 39-42).

The tax system instituted by Hariri protected the interests of the dominant class. Even in times of severe fiscal crisis, Hariri would rather raise duties on petrol or mobile phone usage and seek to introduce VAT than to raise tax rates on top income earners. Low taxes have proved a blunt instrument to attract foreign investors, who tend to look for other incentives first before being swayed by low tax rates.<sup>9</sup> Nor did corporate tax spur investment by domestic firms because they were counteracted by the effects of crowding out. Furthermore, Hariri's government demanded in 1994 that businesses pay taxes that had remained unpaid between 1971 and 1991.<sup>10</sup> This measure led to protests from the business community and penalised the lower rungs of the pre-war bourgeoisie who had been unable or unwilling to relocate their businesses abroad during the war. In conclusion, the extremely low rate of income tax is best explained with reference to class interests of wealthy Lebanese such as Hariri. However, the prime minister faced opposition to raising petrol duties and other charges, including VAT. These limits to full neoliberalisation are once again best explained with reference to competition within Lebanon's confessional elite cartel, which pitted Hariri against former militia leaders and Syrian allies who represent a more popular constituency.

Reconstruction did not benefit those who were economically disadvantaged. This was very evident in the spending of the institutions under Hariri's control. In the Horizon 2000 study of 1993, which Hariri had commissioned and which was supposedly forming the basis of the CDR reconstruction plan, social infrastructure was to receive

<sup>8</sup> EIU, *Country Report: Lebanon*, 2<sup>nd</sup> Quarter 1998, p. 21.

<sup>9</sup> As was found by surveys of investor choices such as Meyer, 1995.

<sup>10</sup> EIU, *Country Report: Lebanon*, 4<sup>th</sup> Quarter 1994, p. 16–17.

27.8% of total spending from 1993 to 2002, while the productive sector – industry and agriculture – was to receive 11.5% (Najem, 2000 pp. 66-74). However, CDR figures show that physical infrastructure received 81.6% between 1992 and 2001, leaving little for social infrastructure (12.3%) and productive sectors (1.5%) (Makdisi, 2004 p. 141). The shift in spending priorities away from social concerns and towards physical infrastructure benefited contractors and illustrates Hariri's disregard for social issues. Uneven development also had a regional aspect, which was not addressed by Hariri's policies. The flagship projects of reconstruction, such as the airport or Solidere were based in the capital. However, deprivation is greatest in rural areas. The 1997 mapping of living conditions survey found that the incidence of deprivation is highest in rural areas and lowest in Beirut and its suburbs.<sup>11</sup> Those aspects of reconstruction, which did address poverty and deprivation tended to be concessions to Nabih Birri who represented a more popular constituency. Examples include the compensation for the displaced in the Solidere area as well as Amal and Hizbullah's mediation with inhabitants of the Elissar project area (Harb el-Kak, 2000).<sup>12</sup>

As discussed in chapter 3, there was also a strengthening of the "left hand" of the state: the service ministries under the control of former militia leaders and close allies of Syria were receiving a high share of expenditure. Yet rather than improving the services of the state, there tended to be merely an increase in employment. The share of government employment in total employment rose from 8% in 1970 to 11% in 1997 (Gaspard, 2004 p. 86). The high incidence of unemployment and the scarcity of waged employment turned government jobs into an even greater patronage resource. Government spending on wages and salaries rose from 6.6% of GDP in 1992 to 9.2% in 1998, a nominal increase by 356% (World Bank, 2005 p. 75). The expansion of government employment helped to keep down unemployment but evidence of over-staffing and granting funds according to political criteria rather than need suggests that it did not necessarily improve the performance of government agencies. Over-staffing was therefore a form of rent-creation and rent-sharing.

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<sup>11</sup> While there is a greater number of households with low satisfaction of basic need in urban areas, the level of deprivation is higher among rural households (UNDP, 1998).

<sup>12</sup> At times Hariri also used his privileged access to information about compensation to benefit his supporters (Sawalha, 2003 p. 280).

While the provision of public services was expanded after the war, the majority of Lebanese remained reliant on resources controlled by the confessional elite cartel and their allies for access. An expansion of public education took place in the post-war period but an enormous gap remains in educational opportunities, especially in the quality between private and public education. A study by the Ministry of Education showed that only 50.4% of students enrolled in public schools achieved an acceptable level of academic competence, compared to 64.8% in free private schools and 77.1% in private fee-paying schools (UNDP, 1998). Poorer households rely on free education: 57.4% of students enrolled in public schools in Beirut and its suburbs in 1995 came from poor households, as did 61.3% of those in private free schools. There is therefore scope for patronage by providing education, either by building schools, giving scholarships, or providing access to schools of philanthropic associations, most of which were run along confessional lines. In 1994/1995, 14% of students were enrolled in private non-fee paying schools, while 56% were attending fee-paying private schools (UNDP, 1998). The impact of educational opportunities is particularly high with regard to university education. In 2004, 50.3% of Lebanese university students were in public education at the Lebanese University (Central Administration of Statistics, 2006 p. 48). Yet an education in fee-paying universities such as the American University of Beirut or St Joseph University enabled students to gain higher paid jobs and increase the chances of finding work abroad. In a highly competitive labour market education was the main means of reproducing or improving social status. This anxiety went beyond the poor and reached deep into the middle class, which was struggling to send its children to private universities. A similar picture emerges in the health sector. In 1997, 60.4% of Lebanese residents were not covered by health insurance (UNDP, 1997 p. 63). Furthermore, health insurance does not cover all health costs and households have to contribute large out-of-pocket payments.<sup>13</sup> This offers patronage opportunities to politicians who provide health centres or pay for medical treatment. Again, these

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<sup>13</sup> The only exception is hospitalisation, which is covered by the Ministry of Health for those who have no insurance. Yet hospitals are often reluctant to take in persons of low income because of delays in disbursement of funds by the ministry and because they fear that they might be unable to pay the 15% of the cost they are required to bear themselves (UNDP, 1997 p. 63).

insecurities reach deep into the middle class, although the poor are more likely to be affected.

What emerges, then, is the continued reliance of a large section of Lebanese on resources controlled by Lebanon's political and economic elites. The structure of Lebanon's economic field means that access to jobs, healthcare and education can be used as patronage instruments. The anthropologist Aseel Sawalha quotes one displaced Lebanese about the difference between patronage during and after the war:

“During the war, I used to ask the [militia] leader to find me an apartment, or find me a job. After the war, the politicians sensed that we are not completely dependent upon them as before. But they are trying to keep us under their control. They want us to be like sheep that they own. They want us to realise that we cannot get anything without their intervention.” (Sawalha, 2003 p. 286)

The quote suggests that politicians were actively seeking to maintain a bond of dependency over their clientele. The provision of benefits to clients in return for political support often emerges as the essence of the “political” in Lebanese discourse.

#### **4.2. Resistance to neoliberalism 1992-2000**

Lebanese citizens were not simply passive consumers of sectarian ideologies and clientelist handouts and Hariri's neoliberal economic policies in the post-war era triggered a variety of popular protests. Because neoliberalism is an assemblage of often contradictory projects, resistance also takes many different forms. It can revolve around economic struggles or it can take the form of identity politics because sectarian, ethnic, or racial hierarchies are being reordered or reinforced. Theorists of such resistance have either welcomed any and all resistance as an assault by the “multitude” on the decentred biopolitical machine of neoliberal “Empire” (Hardt and Negri, 2000 pp. 52-59), or they have argued that only class-based opposition can be truly effective because of the danger of ethnic and nationalist hatred and of subversion by neoliberal populism (Harvey, 2005 p. 201; Evans, 2008 pp. 285-286). Popular Lebanese opposition to Hariri's neoliberalism reveals a complex web of economic,

political, cultural and “anti-imperialist” agendas. Three cases of resistance to Hariri’s policies of reconstruction and government over-borrowing will be discussed: firstly, the campaign against Solidere in central Beirut led by the pre-war bourgeois families, secondly, trade union protests from 1992 to 1997, and finally, the “revolt of the hungry” of agricultural workers in the Biqa’ valley in 1998. While the grievances of these groups sprang from Hariri’s policies, class-based protest against government policy remained ineffective and was eventually clientelised by Hariri’s elite rivals. This clientalisation goes a long way in explaining the ineffectiveness of popular opposition to neoliberalism in Lebanon. The focus here is on popular protest rather than informal resistance through “everyday” negotiation of the clientelist system.<sup>14</sup>

#### 4.2.1. Opposition to Solidere

Opposition to the Solidere project came from several groups. Their interests, their discursive strategies and the extent of cooperation and competition among themselves show how class and confessional identity interacted in opposition to Hariri’s reconstruction plan in the city centre. The first group are the property owners whose rights were transferred to Solidere. The leaders of this camp came from the pre-war bourgeois families. The second group were urban planning experts such as architects and sociologists who criticised Solidere’s plans. Some were closely networked to the pre-war bourgeois families, some were later co-opted by Solidere. Finally, there was popular opposition from the mainly Shi’i displaced. The interests of Shi’i displaced stood in contrast to those of the former owners and their discursive strategies were very different.

Rent-creation by Solidere occurred at the expense of former property owners. Many resented the transfer of their properties and the compensation they received allotted them only a small share of the venture’s profits. Opposition by property owners was led by members of Beirut’s pre-war bourgeois families. The leading organiser was ‘Umar al-Da’uq, one of the biggest landowners in the city centre. The Da’uq family has

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<sup>14</sup> For an ethnographic study of such negotiations see Obeid, 2010.

a history of involvement in Lebanese and Beirut politics, including family members who were prime minister and heads of the Maqasid association, such as Amin al-Da'uq, who took over as Maqasid president from Salam in 2000. 'Umar al-Da'uq started opposing Hariri's reconstruction plans in 1984, after the billionaire had started restoring sections of the city centre, including properties belonging to Da'uq.<sup>15</sup> In 1991 Da'uq founded an owners' association to prevent the transfer of property rights to Solidere. This reflects the interests of Beirut's pre-war bourgeois families who had been the biggest property owners in the commercial centre of the city. However, the association also brings together some small owners. The association protested against the transfer of property rights to Solidere, the mode of evaluation of the total value of the land, and the way in which the value of individual properties was determined, as well as the destruction of historic buildings that the owners considered salvageable (Beyhum, 1992 p. 50). Not all property owners rejected Solidere and many accepted the company's offer as the best possible deal they could secure.

The second group that opposed Solidere was a group of architects and urban planners. They criticised the privatisation and monopolisation of the reconstruction process by Solidere, the creation of an "island of wealth and power" unable to fulfil its integrative function in a city divided by civil war, the destruction of the social and architectural fabric of the city, and the commodification of its history, imposing amnesia of the civil war rather than remembrance (Beyhum, 1992; Kabbani, 1992; Makdisi, 1997; Salam, 1998). These critics of Solidere's reconstruction plans were closely networked to the bourgeois families that dominated the pre-war economy and politics. Some were networked directly, such as 'Assam Salam. He was the head of Lebanon's engineering union, one of the most outspoken opponents of the Solidere project, and the cousin of Tammam Salam, head of the Maqasid association, which was a major landowner in central Beirut. This is not to say that he was doing the bidding for his cousin's property rights: 'Assam Salam remained fundamentally opposed to the Solidere project while Tammam Salam and the Maqasid came to accept Solidere. However, 'Assam Salam came from a particular milieu that was drawn from the pre-war bourgeois families. It is

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<sup>15</sup> According to 'Umar al-Da'uq's widow, who is the current head of the property owners' association that opposes Solidere. Interview with Raya al-Da'uq, Beirut, 26<sup>th</sup> March 2008.

no coincidence that the critics of the first reconstruction plan of 1991 were advocating the preservation of an aesthetic of the city, which reflected an era when the pre-war bourgeoisie had been dominant. Nabil Beyhum prophesied in 1992 that the disappropriation of Beirut's "middle class" by a single real estate company would turn Beirut from an "Ottoman city" into a "Wahabi city", "a desert city in which the urban elite submits to the uncontested authority of those who control the wealth and who are the defenders of cultural conservatism. It is a vision of a city broken up into segregated islands" (Beyhum, 1992 p. 55). Beyhum goes on to ask rhetorically:

"But is Beirut really a desert city? Is it a city without a history, which one can simply abandon to the bulldozers? ... Will Beirut be reconstructed without being lost, without closing itself off, without ultimately being forced to deny itself? Will the feeling of tolerance which existed in the Ottoman city be allowed to prevail once again?" (Beyhum, 1992 p. 55)

Beyhum establishes a correlation between the property rights of the established urban elites (the "middle class"), its control over urban space in the city centre, and the idealised tolerance of the Ottoman city. Similarly, 'Assam Salam links the decimation of the city centre's social fabric with the destruction of the "memory of the city", which he contrasts with his version of the "desert city" (without using this term):

"Effectively, a fatal blow has been dealt to the memory of this very ancient city, only to be replaced by a 'mirage' of a new city, one better suited to the oil-rich Arab countries, with a wealth of new buildings, perhaps, but a dearth of architectural traditions" (Salam, 1998 p. 132)

This concern with (Ottoman) history echoes the comment by Yvonne Cochrane, a daughter of the influential Greek-Orthodox Sursuq family and a leading activist in the property owners' association. She described the reconstruction plans of 1991 as "a potty vision of a nightmare city thought up by somebody with a third-world mentality".<sup>16</sup>

The discursive strategy of both property owners and urban planning experts is very clear. The disappropriation of the pre-war bourgeoisie by the new contractor bourgeoisie results in a "vulgar" architecture more suited to the Arab Gulf than to the needs of Beirut. Of course Hariri first accumulated his wealth in the Gulf and the ideas

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<sup>16</sup> *Lebanon Report*, July 1992, p. 10.

and the investment for reconstruction originated in a circle of Gulf businessman around Hariri (see chapter 3). The needs of “Beirut” are defined by the intellectuals who possess the “cultural capital” to challenge Hariri’s reconstruction plan (Bourdieu, 2002): the university degrees and, most importantly, the “good taste” required to challenge the ideas of someone with a “third world mentality”. The opinions of the architects and city planners who were criticising the 1991 plan were a discursive rearguard action of a class in decline, deploying their “cultural capital” to make up ground that had been lost in the economic field. As Beyhum suggests, if only the “middle class” were to be put back in charge of the city centre – a space produced by a form of capitalism that had put them at the top of the social ladder from the Ottoman era to the civil war – then confessional tolerance would return.

Hariri reacted to opposition from property owners and urban planners by co-opting some of them, allowing them to soften the rough edges of his project, but leaving the fundamental mechanisms of rent-creation and appropriation intact. Some large property owners came to an arrangement with Solidere. Deputy Prime Minister Michel al-Murr avoided expropriation of the Murr tower at the fringes of the Solidere area, a building that had become infamous as a militia stronghold and sniper hideout during the civil war (Becherer, 2005 p. 17). The Maqasid association – headed by Tammam Salam – acquiesced to the Solidere scheme and was rewarded with a seat on the company board for a Maqasid representative (Schmid, 2005 p. 19). Others accepted Solidere’s argument that the company was the only one able to evict the displaced “squatters” – and to realise some of the value of the land by obtaining shares, even if that meant they could not recoup its full value.

Solidere also systematically co-opted urban planners who had initially criticised the 1991 Dar al-Handasah plan. In 1992 Ussama Qabbani had compiled the criticism of the plan put forth at a conference at the Centre for Lebanese Studies (Kabbani, 1992). In the same year Solidere hired him to review the master plan for reconstruction, in 1994 he became town planning department manager and in 1997 the head of the urban

management department of Solidere.<sup>17</sup> Another example is Jad Tabet who had also criticised the initial master plan but later became the leading planner for the “souks of Beirut” project, a shopping mall in the city centre.<sup>18</sup> With the help of these planners, the master plan was fundamentally reworked. The head of the consulting team that prepared the new master plan was the British architect Angus Gavin who had previously worked on the London Docklands development and several “new city” schemes in the Gulf (Rowe and Sarkis, 1998 p. 297; Summer, 2005 pp. 78-79). He describes the 1991 Dar al-Handasah master plan as a “false start” because of its “grand planning” approach. The new plan, which Gavin had worked on, showed “greater sensitivity to the surviving and pre-existing urban fabric”. This was due to an internal debate among planners between Anglo-Saxon “contextualism” and a continental European “tabula rasa” approach, which the former appear to have won:

“In the Beirut of the early 1990s, the master plan team held strong convictions that, despite the scale of wartime destruction and the need to provide the framework and vision to help stimulate the city’s re-emerging role in the region, the plan should deliver a message of cultural continuity and pluralism – not the imposition of a foreign order.” (Gavin, 1998 p. 219)

The “foreign” aesthetic of Beyhum’s “Wahabi city” had been tamed, not least through the co-optation of urban planners who had initially been critical of the Dar al-Handasah master plan. However, while some aesthetic elements of the master plan were altered, its fundamental economic logic remained intact and modernism has by no means expelled from the city centre. Solidere is still in charge of the reconstruction process and only a tiny fraction of the original owners managed to maintain control of their properties. Only those parts which already were the most densely built on were recuperated while the rest was torn down because the denser areas could be more profitably exploited (Schmid, 2006 p. 370). The Solidere project is replete with glass and steel high risers. The “contextualism” that Gavin talked about turned out to be less of an aesthetic concession and more of a boon for Solidere. For instance, the shopping mall for which Jad Tabet provided the master plan used references to “traditional” suq architecture to market it more successfully. One architect on the “souks of Beirut” project described the rationale for this commodification of history thus:

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<sup>17</sup> According to the biographical note in Rowe and Sarkis (1998 p. 299). See also Summer (2005 pp. 78-79).

<sup>18</sup> The original criticism was contained in Tabet (1993). Tabet’s move to the “souk” project is mentioned in the biographical note in Rowe and Sarkis (1998 p. 301).

“The charge for the project concerning the souks of Beirut entailed finding an architectural solution that revitalises the familiar character of a souk while accommodating contemporary needs of shopping and retail. The main response to this charge has been to provide an architectural framework that *does not interfere* with retail trade but that *is enriched* by the activity and variety typical of a souk.” [my emphasis] (Moneo, 1998 p. 263)

History enriches but must not interfere with the needs of modern retail trade, such as providing parking space.

The discourse of urban planners and property owners is also noteworthy for what is absent. The issue of the displaced persons living in the Solidere area tended to go unmentioned or was only noted in passing. The restoration of property rights to their pre-war owners rested on the denial of the claims of the displaced who had taken possession of properties when they lay abandoned. Nor did the displaced possess advocates with the “cultural capital” to formulate a “tasteful” version of the city centre in which they would have a place. Sunni Beirutis in general tended to describe Shi’i migrants as outsiders to the capital, lacking urban refinement. The displaced in the city centre were frequently referred to as “occupiers” by the property owners.<sup>19</sup> The discourse by which the displaced expressed their belonging to central Beirut and staked a claim to the properties they “occupied” was therefore fundamentally different to that of the property owners and their allies among urban planners. Their discourse challenged their status as “outsiders” to the city. Individual narratives asserted “place attachment” on the basis of wartime experiences in the city (Sawalha, 2000). Communal narratives, too, were utilised. A particularly instrumental narrative of belonging to the city was put forth in May 1992, when Hizbullah claimed that the mausoleum in the city centre was a shrine housing the remnants of a Shi’i mosque caretaker called Ibn ‘Iraq (Yahya, 2007 p. 237). The mausoleum became a pilgrimage site for Shi’i Muslims. Importantly, central Beirut was an area where places of worship tended to be Sunni Muslim, Christian, or Jewish, reflecting the pre-war predominance of these groups among the city centre’s inhabitants. Hizbullah thus used the Ibn ‘Iraq mausoleum to stake a specifically religious and sectarian claim. The connotation was that the Shi’i belonged to the city. As Becherer puts it: “Beirut’s Sunni population

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<sup>19</sup> Interview with ‘Abd al-Majid Dabbus, Beirut, 11<sup>th</sup> February 2008. Sawalha, 2003.

bridled at the idea that this site, long attached to their confession, might be redesignated, sanctified, and appropriated. This was nothing less than religious squatting” (Becherer, 2005 p. 27). Sunni scholars promptly went to work and established that Ibn ‘Iraq was, in fact, a Sunni Muslim from a sufi tradition. Hizbullah and the other major Shi’i movement, Amal, not only spun communal narratives but also represented the rights of the predominantly Shi’i displaced in central Beirut (Sawalha, 2003 pp. 289, FN 289). Solidere was forced to compensate the displaced by paying them US\$245 million.<sup>20</sup> Thus, a fundamental challenge to Solidere and its redefinition of property rights and rent-creation mechanism was diffused. Amal and Hizbullah turned the issue of the displaced into a mere bargaining chip to gain access to these rents. Because the displaced remained reliant on the two sectarian movements for achieving and mediating these benefits, Amal and Hizbullah strengthened their hold over their Shi’i constituencies.

#### 4.2.2. The trade unions

Neoliberalism as a political project was driven by the strengthening of capital over labour by increasing the share of surplus appropriated through profits rather than wages (Glyn, 2006 pp. 104-128; Harvey, 2005 p. 76). This involved reducing the influence of organised labour, reducing wages, and making labour more “flexible” in terms of work intensity and the ease of “hire and fire”. However, neoliberalisation as an uneven process had differential effects on labour movements in different countries (McIlroy and Daniels, 2009; Turner, 1991; Kong, 2005). By looking at Hariri’s relationship with Lebanon’s trade unions, another specific aspect of Lebanese neoliberalism can be explained. Lebanon’s labour movement became a focal point for popular opposition to Hariri’s economic policies from 1993 to 1997. Although trade union membership rose from 50,708 in 1972 to 58,690 in 2001 (Badran and Zabib, 2004 p. 50; Gaspard, 2004 p. 65), Lebanon’s post-war labour movement was facing the same structural weaknesses as before the war. Employment in Lebanon reflected the overall structure of the service-based economy. Manufacturing employment

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<sup>20</sup> *MEED*, 21<sup>st</sup> June 1996, p. 35.

accounted for only 13% of total employment in 1998 – down from 15% in 1970 (Gaspard, 2004 p. 113). What’s more, Lebanon’s industrial sector is made up of a large number of small- and medium-sized businesses, with only 26% employing six or more workers. The dominance of the service sector and small enterprises in the Lebanese economy was reflected in union membership. 42,629 employees in the services sector were union members in 2004, or 9.4% of all employees in the sector (Badran and Zabib, 2004 p. 84). The numbers for industry (13,360 and 6.7%) and agriculture (2,701 and 2.9%) were much lower. The single largest trade union federation represents employees in the banking sector, gathering 12.4% of all trade union members. Labour movements tend to be stronger if they represent industrial labour in large concerns such as steel, coal, or automobiles than if they represent small companies in the service sector and light industry (Kong, 2005 p. 181). A related structural feature is that waged labour – the main constituency of trade unions – is weak. It accounted for only 66% of total employment in 1997, only slightly up from 61% in 1970 (Gaspard, 2004 p. 86). Especially skilled, waged, regular labour in industry was only a tiny part of the labour force at 1% in 1997. The share of government employees has risen from 8% of total employees in 1970 to 11% in 1997 but their ability to join trade unions is officially restricted.<sup>21</sup> Unionisation was therefore low, at 7.8% of total employment in 2004.<sup>22</sup> Another source of structural weakness was high unemployment, which tended to exceed 25%, according to unofficial estimates (Gaspard, 2004 p. 215). The “reserve army of labour” was further enlarged by Syrian migrant workers who provided cheap unskilled and semi-skilled labour in construction and agriculture.<sup>23</sup> Their numbers fluctuated between an estimated 400,000 and 600,000, depending on the demands of the labour market. Syrian workers were not unionised. Cheap Syrian labour as a “disciplined commodity” (Chalcraft, 2005) was central to reconstruction as a rent-creation mechanism, just as migrant labour from South Asia is central to the construction sectors in the Gulf. The unwillingness or inability of Lebanese unions to integrate Syrian workers into their ranks weakened their position.

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<sup>21</sup> The data on public sector employment is cited in (Gaspard, 2004 p. 86). International Confederation of Free Trade Unions, *Annual Survey of Violations in Trade Union Rights 2000*, ICFTU, 2000, electronic version available from: <http://www.icftu.org/displaydocument.asp?Index=991210702&Language=EN>, viewed on 4/3/2010

<sup>22</sup> The subsequent numbers on trade union membership are from Badran and Zabib (2001 p. 84).

<sup>23</sup> The information on Syrian migrant workers is taken from Chalcraft (2005).

These structural weaknesses put a premium on a central leadership that could mobilise members in general strikes or demonstrations. The political power of labour thus depended to a large extent on its leadership. For this reason, the discussion of labour resistance to Hariri's neoliberal policies will revolve around the General Confederation of Workers in Lebanon (GCWL). It fell to the GCWL to bundle the power of the disparate unions and confederations that were its members. Labour power can be analysed in a triangular relationship between trade unions, employers, and government. The focus here is on relations between GCWL and the government, leaving aside relations with employers. Lebanese law places high hurdles in front of collective bargaining and trade unions have sought government involvement in wage disputes.<sup>24</sup> "Government" is not a unitary actor but is here – once again – analysed in terms of different types of elites: Hariri as a new contractor, his technocrats, and former militia leaders, as well as "popular" movements such as the Ba'th Party and the Syrian Socialist Nationalist Party (SSNP).

The businessman Rafiq Hariri displayed little interest in the labour movement, which was its natural opponent. He did try to foster alliances with some trade union federations, for instance in the banking sector, but he relied mainly on repression by the security forces. This is, of course, a tried and tested method of breaking labour opposition to neoliberal reforms and highlights the contradictions between neoliberalism's claim to furthering freedom and the need to curtail liberties in the process of establishing a neoliberal economic order (Harvey, 2005 p. 37). When it came to repressing labour unrest, Hariri was happy to call on the repressive apparatus that Syria had installed in Lebanon. This contrasts with his posthumous image of having "resisted" Syrian authoritarianism (Nizameddin, 2006). Former militia leaders and Syrian allies who were representing a more popular constituency actively sought to clientelise trade unions and their federations. They tended to be in charge of "service ministries", sought to strengthen the state's welfare function, and to expand

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<sup>24</sup> International Confederation of Free Trade Unions, *Annual Survey of Violations in Trade Union Rights 2000*, ICFTU, 2000, electronic version available from: <http://www.icftu.org/displaydocument.asp?Index=991210702&Language=EN>, viewed on 4/3/2010

state employment. They shared these goals with the trade unions. However, in the past the labour movement had maintained its independence from the militias and had remained united across the sectarian divide (Hanf, 1988). In 1987 the unions had organised cross-confessional demonstrations against militia rule. They were then the only force left that could effectively mobilise the population against these leaders. Clientelisation by former militia leaders and Syrian allies would also mean that trade unions would become an instrument in the arsenal of these leaders who were more interested in obtaining a greater share of rents rather than protecting workers' interests. This is akin to the process of co-optation that occurred in "popular authoritarian" regimes such as Egypt or Syria, where a populist leadership offered state employment and job security in return for political acquiescence and support by the labour movement (Bianchi, 1986; Perthes, 1995 pp. 173-180; Ayubi, 2001 p. 211). Especially in Egypt, this has led to rising contradictions when the regime started implementing neoliberal reforms in the 1990s. The third elite group that took an interest in the trade union movement was the military establishment around army commander Emile Lahud. In the mid-1990s Lahud and the GCWL leadership coordinated trade union protests and army responses, avoiding violent clashes at several instances. To understand how the trade union movement lost its independence we need to look at the interaction between rival factions in the GCWL and the elite factions in government: Hariri, former militia leaders and Syrian allies, and the military establishment.

In May 1992, ferocious demonstrations by Lebanon's trade unions led to the resignation of 'Umar Karami as prime minister and paved the way for Hariri in October 1992, after Rashid al-Sulh had acted as interim head of government. The trade unions were protesting against government inaction in the face of a rising economic crisis and deterioration of the currency, which was only halted by the policy of government over-borrowing. However, relations between Hariri and the trade unions deteriorated quickly. In May 1993, Antoine Bishara, the GCWL President, expressed disappointment with the Hariri government's disregard for social issues such as wages, fringe benefits, and education and health spending (Baroudi, 1998 p. 536). Hariri, in turn, acted in a

combative manner, imposing a ban on street demonstrations in June 1993.<sup>25</sup> The government ministry in charge of dealing with the trade unions was not, however, controlled by a Hariri ally but was held by staunchly pro-Syrian politicians. From October 1992 to May 1995 'Abd Allah al-Amin held the post. He held the second highest position in Lebanon's pro-Syrian Ba'th party.<sup>26</sup> He was succeeded by As'ad Hardan of the Syrian Socialist National Party (SSNP), in office until December 1998. Ba'th and SSNP were seeking to use the trade unions as a support base, drawing parallels to the subordination of the Syrian trade unions by the country's Ba'th party in the 1960s and 1970s.<sup>27</sup> As mentioned in chapter 3, Hariri concentrated on controlling the economics ministries while the former militia leaders sought to control the service ministries. The labour ministry, meanwhile, was allocated to SSNP and Ba'th Party.

Initially, al-Amin did not use it to the best effect. His efforts to influence the elections for the presidency of the GCWL in June 1993 backfired. Antoine Bishara had been president since 1983 and sought re-election. However, in the last minute the communist and socialist blocs in the GCWL turned against Bishara and narrowly voted in Iliyas Abu Rizq.<sup>28</sup> According to one interpretation, Abu Rizq had been the government's candidate to start with but the labour ministry then struck a last-minute deal with Bishara.<sup>29</sup> This prompted the leftist camp in the GCWL to vote for Abu Rizq, who was disappointed with Al-Amin's betrayal at the elections. Abu Rizq embarked on a confrontational course with the government and sought to exclude executive council members loyal to Bishara.<sup>30</sup>

The GCWL under Abu Rizq demanded the strengthening of the "left hand" of the state to fight deprivation and poverty and improve access to education and health services. Abu Rizq put forward a detailed statement of trade union demands on 19<sup>th</sup> September

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<sup>25</sup> *MEI*, 15<sup>th</sup> March 1996, p. 14.

<sup>26</sup> *Lebanon Report*, March 1994, p. 4.

<sup>27</sup> *Lebanon Report*, March 1994, p. 4.

<sup>28</sup> *Al-Nahar* 15<sup>th</sup> May 1997, p. 9. Baroudi, 1998 p. 537.

<sup>29</sup> *MEI*, 5<sup>th</sup> December 1997, p. 13.

<sup>30</sup> *Al-Nahar* 15<sup>th</sup> May 1997, p. 9.

1994.<sup>31</sup> He blamed the government for endangering civil liberties, economic stagnation, skewed spending priorities, high public debt, rising unemployment and deepening income inequality, and privatisation paired with a neglect for the public sector. Some demands amounted to a direct attack on particular rent-creation mechanisms, such as the call for state control of the oil sector or the government monitoring of prices. It is important to note, here, that the trade unions did not exclusively attack those rent-creation mechanisms controlled by Hariri but also monopolistic market structures or sub-standard provision of public services which were under the control of former militia leaders, zu'ama, or Syrian allies. The trade unions further demanded a rise in direct taxes and cuts in indirect taxes to make the Lebanese tax system more progressive. Abu Rizq demanded wage increases of 88%, based on trade union calculations of rising living costs. Other demands included expansion of the National Social Security Fund (NSSF) to cover all workers and greater spending on public education at school and university level.

The government rejection of trade union demands led to a series of strikes. In October 1994, 60,000 public sector workers went on strike prompting the government to meet some of the union demands.<sup>32</sup> A second wave occurred in November. In December, the government agreed to raise the minimum wage, while salaries across the board were raised by 20% effective from 1 January 1995.<sup>33</sup> This agreement became a bone of contention, as the government dragged its feet in implementing it and decided to raise the tax on petrol by 38% to fund it.<sup>34</sup> Hariri's message was that public sector pay rises would be counter-productive because they would have to be financed through higher taxes and thus fall back on the Lebanese public. The GCWL's response to the petrol tax rise was ferocious: defying the government ban on street demonstrations, the unions mobilised their members in July 1995 and hundreds of people were arrested after clashes with security forces.<sup>35</sup> Not only did the unions defy the Lebanese government,

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<sup>31</sup> *Al-Nahar*, 20<sup>th</sup> September 1994, p. 6

<sup>32</sup> The strike was over end-of-service indemnities, medical care after retirement, and school scholarships. Additionally, salary increases of 40% to 75% were demanded. *Lebanon Report*, October-November 1994, p. 9

<sup>33</sup> EIU, *Country Report: Lebanon*, 1<sup>st</sup> Quarter, 1995, p. 16.

<sup>34</sup> As summarised in: *Lebanon Report*, Fall 1995, p. 8.

<sup>35</sup> EIU, *Country Report: Lebanon*, 4<sup>th</sup> Quarter 1995 p. 11.

they also went against the wishes of the Syrian regime, which had publicised its opposition to trade union protests.

At this point the trade unions still displayed a great deal of independence and an ability to mobilise. They therefore became the focal point of opposition to the social conditions and curbs on democracy. In February 1996 the GCWL again called for strikes and a day of demonstrations. The confederation's demands linked issues of social justice with calls to respect democratic rights on a "national day in defence of liberties, democracy and daily bread". Trade union demands included the implementation of the 20% public sector wage increase and the revocation of the ban on demonstrations and of the government's restrictive audiovisual media law.<sup>36</sup> The Hariri government reacted with even more repression: On 27<sup>th</sup> February 1996 it declared a "semi-state of emergency", which formally transferred responsibility for security to the army for three months and allowed for trials by military courts under martial law.<sup>37</sup> Note that these extreme measures were not inspired by the military and intelligence establishment around army chief of staff Emile Lahud but came from the businessman prime-minister Rafiq Hariri. Lahud was reportedly reluctant to let his troops take over all policing duties and coordinated with the GCWL to avoid a bloody confrontation.<sup>38</sup> Lahud imposed a curfew on 29<sup>th</sup> February and thus saved face for both parties. This coordination between unions and army was likely facilitated by the fact that Iliyas Abu Rizq's brother was a major army officer. The proximity of GCWL and army led to accusations from within the labour movement that Emile Lahud was "using" Abu Rizq to create a volatile security situation and thus increase government reliance on the army.<sup>39</sup>

We have seen that Hariri tended to rely on experts in his network to solve problems: one of his bankers went on to become finance minister and one of the Oger engineers headed the CDR. Similarly, Hariri mobilised one of his allies to negotiate with the

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<sup>36</sup> *MEI*, 15<sup>th</sup> March 1996, p. 15.

<sup>37</sup> *Al-Nahar*, 28<sup>th</sup> February 1996, p. 1. EIU, *Country Report: Lebanon*, 2<sup>nd</sup> Quarter 1996, p. 9.

<sup>38</sup> *Lebanon Report*, spring 1996, p. 7.

<sup>39</sup> Reported in *MEI*, 5<sup>th</sup> December 1997, p. 13.

unions in February 1996: the leftist intellectual Muhammad Kishli.<sup>40</sup> In the 1960s, Kishli and Muhsin Ibrahim had been instrumental in introducing Marxist class analysis into the Nasserite Arab Nationalist Movement (ANM), where Hariri and Siniora had been activists in their youth (Abu Khalil, 1999 pp. 96-100). Arab nationalism was thus an ideological bond, which could be activated by someone like Kishli to explain his inclusion into the Hariri network. Hariri could thus marshal a variety of sometimes contradictory narratives to build alliances: as an agent of reconstruction, as a Sunni leader, as an Arab nationalist. Although Kishli claims that he and Abu Rizq came to an agreement over key trade union demands, the GCWL eventually continued its wave of protests and dialogue was abandoned. The army prevented them from actually conducting their protest by containing the protest in the confederation's headquarter.<sup>41</sup>

The more the trade unions became the target of authoritarian restrictions, the more they became the focal point of protest against the authoritarian tendencies in post-civil war Lebanon. In September 1996, the GCWL brought together Islamists, Nasserites, Communists, Maronite politicians, former prime minister Salim al-Huss, and the leftist deputy Najah Wakim at the "national meeting in defence of liberties". The meeting took particular aim at the audiovisual law, which restricted television licenses to a handful of stations directly linked to politicians – including Hariri's Future TV. Demonstrations called by the GCWL in November 1996 under the slogan "bread, education, freedom" opposed government spending priorities, the ban on demonstrations, and the shut-down of TV and radio stations.<sup>42</sup> The army quelled the protests but the GCWL received support from a wide spectrum of political forces.

The high point of the confrontation between the government and the trade unions occurred on 24<sup>th</sup> April 1997 in a dramatic leadership election. Rival factions of the GCWL executive council voted for rival leaders in separate elections: first, Iliyas Abu Rizq was confirmed in his post by an assembly of 26 delegates, later in the day the pro-

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<sup>40</sup> *Lebanon Report*, spring 1996, p. 7.

<sup>41</sup> *Al-Nahar*, 5<sup>th</sup> April 1996, p. 7.

<sup>42</sup> *MEI*, 20<sup>th</sup> December 1996, p. 15.

government candidate Ghanim al-Zughbi won a vote in an assembly of 35 delegates.<sup>43</sup> The formation of rival leaderships owed to heavy government interference in the elections. The government-controlled Internal Security Forces (ISF) had taken over the GCWL building on election-day and blocked the entrance for Abu Rizq loyalists.<sup>44</sup> However, Abu Rizq appealed to the army, which took over some of the positions at the GCWL headquarters and allowed his allies to enter. The episode underlines Abu Rizq's alliance with the military. Continued ISF interference eventually resulted in two competing votes by two rival groups of partisans, one for Abu Rizq and one for al-Zughbi. The latter was immediately recognised by labour minister As'ad Hardan and received the stamp of approval from the Syrian regime.<sup>45</sup> Syrian rejection of Abu Rizq is not surprising, seeing as he had defied Damascus' demands to refrain from strikes and demonstrations at several turns. Abu Rizq received the support of the International Confederation of Free Trade Unions and the Pan-Arab Workers Federation and set up an "independent" GCWL. Over the summer 1997 he was arrested several times.

By 1997, the trade union movement had split and had lost its independence. The most active parties seeking to extend their influence on the trade union movement were the Ba'th party and SSNP, which consecutively held the labour ministry between 1992 and 1998. They created new politically pliable trade union federations out of thin air in a process described as "hatching" (Badran and Zabib, 2001 p. 74). Among the delegates voting for Zughbi were ten representatives of the five unions whom 'Abd Allah al-Amin had licensed in 1994 and which had been forced into the GCWL just before the April 1997 elections.<sup>46</sup> Amal leader Nabih Birri, Hizballah, the Lebanese Forces, and Junblatt's PSP also found allies among trade union federations. Hariri was less active in procuring allies but did find some among the bank workers' union. He allegedly used the security forces to get an ally elected leader of the federation of the south.<sup>47</sup> Hariri employed Muhammad Kishli as his negotiator with the unions. However, Hariri

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<sup>43</sup> *Al-Nahar*, 15<sup>th</sup> May 1997, p. 9.

<sup>44</sup> For accounts of the actions of the different security forces, see: *Al-Nahar*, 15<sup>th</sup> May 1997, p. 9. *Lebanon Report*, Summer 1997, p. 8-9.

<sup>45</sup> A delegation from the Syrian general labour confederation visited al-Zughbi, signalling Damascus' support for the new leader. EIU, *Country Report: Lebanon*, 3<sup>rd</sup> Quarter 1997, p. 15.

<sup>46</sup> *Al-Nahar*, 15<sup>th</sup> May 1997, p. 9.

<sup>47</sup> *Al-Nahar*, 15<sup>th</sup> May 1997, p. 9.

primarily relied on repression to face down the unions. This was largely successful, although Abu Rizq's own connections to the military at times helped him to either avoid violent confrontation or even to receive the army's support against other security services.

A study by Badran and Zabib (2001) illustrates the extent to which the trade unions had been undermined. The number of trade union federations in the GCWL had risen from 22 in 1993 to 36 in 2004. Every federation in the GCWL executive council was represented by two delegates, no matter how large their number of members was. The "hatching" of new unions by politicians meant that 14 of the 36 unions had no more than 500 members, representing only 6.9% of members but controlling over a third of the votes on the executive council (Badran and Zabib, 2001 p. 67). While the non-sectarian Communist Party maintained its traditionally strong presence in the trade union movement, other parties linked to former militia leaders or allied to the Syrian regime gained a majority of votes on the executive council. According to Badran and Zabib (2004, p. 121), Amal and the communist party were the strongest factions in 2004, both controlling 10 votes each on the executive council. They were followed by the Lebanese Forces (9), Ba'th party (7), SSNP (5) and other political forces such as the PSP, Hizballah, or Kata'ib (each controlling two votes). Hariri held three votes. Only 19 of 72 votes were considered "undefined". Furthermore, Iliyas Abu Rizq, allied to Lahud, could rely on a voting bloc of an estimated 9 deputies (Badran and Zabib, 2001 p. 122). The trade union movement had lost its independence to former militia leaders or Syrian allies. It was this independence which had enabled the labour movement to become the focus of resistance and popular mobilisation against the economic policy of the zu'ama in the pre-war era and militia rule during the civil war. Its attempts to face Hariri's neoliberal policies and Syria's authoritarian measures in Lebanon were met with repression and co-optation. The trade unions had become an instrument that Hariri's allies could mobilise against the prime minister to increase their share of the spoils from neoliberal rent.

In December 1998 Salim al-Huss became prime minister. He immediately lifted the ban on demonstrations, prompting a rise in protests demanding a 30% rise in wages and reductions in government fees on telephones, water and electricity services.<sup>48</sup> The new minister of labour was Michel Musa, who was considered close to Birri.<sup>49</sup> Iliyas Abu Rizq had already managed to get himself re-elected as president of the GCLW in July 1998 and in February 1999 became the head of the National Social Security Fund (NSSF), Lebanon's public health insurance.<sup>50</sup> When Hariri returned as prime minister in 2000, he increasingly brushed off trade union protest against his economic policies as inspired by the malevolence of the Syrian regime and its allies rather than genuine social concerns. This bolstered the myth of Hariri's "economic resistance" to Syrian domination.

#### 4.2.3. The revolt of the hungry

The year 1997 saw social protests by agriculturalists in Ba'lbak-Hirmil, dubbed the "revolution of the hungry", led by the Shi'i cleric Shaykh Subhi al-Tufayli. The predominantly Shi'i area was almost completely neglected by the government's reconstruction policy. It suffered from the eradication of drug cultivation and the general neglect of agriculture by the government. As such, Hariri's policies were the main target of the "revolution of the hungry". However, as we shall see, the revolt also included an element of competition between different personalities and regional leaderships in the Shi'i community.

The crisis in Lebanese agriculture was primarily due to post-war economic policy, which benefited services such as finance and tourism and stifled the productive sectors agriculture and industry. The crisis is illustrated by the trade balance in food products: Exports of US\$88 million in 1997 were dwarfed by imports of US\$1.1 billion.<sup>51</sup> Imports of cheap Syrian foodstuffs are often blamed for the hardship of Lebanese

<sup>48</sup> EIU, *Country Report: Lebanon*, 2<sup>nd</sup> Quarter 1999, p. 20.

<sup>49</sup> Musa was a Greek-Catholic physician from South Lebanon who was elected to parliament on Amal's list in 1996 and 2000.

<sup>50</sup> *MEI*, 4<sup>th</sup> September 1998, p. 14. *MEI* 9<sup>th</sup> March 2001, p. 19.

<sup>51</sup> UN Comtrade database, available at: <http://comtrade.un.org/db/default.aspx>, viewed on 10th March 2010.

agriculturalists but the domestic causes of the agricultural crisis weigh more heavily. Unlike other Arab countries, inequality in land tenure is a lesser problem, with 87% of farms estimated to comprise less than two hectares in 2003 (Oxford Business Group, 2003 p. 128). State subsidies to the tune of about US\$60 million a year gave a modicum of security to tobacco and sugar beet producers, who were mainly Shi'i farmers.<sup>52</sup> This explains Nabih Birri's interest in maintaining these subsidies. High interest rates resulting from government over-borrowing crowded out investment in the agricultural sector, which accounted for only 1.5% of total credit in 1998.<sup>53</sup> Of course, large landowners who were embedded in urban networks could access credit more easily and also had access to subsidised credit which was not open to small farmers (Oxford Business Group, 2003 p. 128). Only large landowners tended to be successful, such as the politicians Iliyas Skaff or President Iliyas Hrawi, who also had interests in the agro-industry. Furthermore, small farmers tended to be at the mercy of wholesalers and distributors (Oxford Business Group, 2003 p. 128). Another reason for the rising deprivation among agriculturalists in Ba'lbak-Hirmil was drug eradication, which had started in 1991. Drug cultivation had been a lucrative business bringing in an estimated US\$700 million to US\$1 billion annually during the civil war (Corm, 1994 p. 218). The bulk of these rents were appropriated by a few extended families who controlled the drug trade, as well as the militias and Syrian generals.<sup>54</sup> Yet drug cultivation also became a central part of the local economy, employing some 50,000 people in the Biqa' and using up 40,000 acres of fertile land, according to a UN estimate.<sup>55</sup> By 1995, the UN claimed that 95% of former drug plantations had been wiped out with the help of the Syrian army.<sup>56</sup> According to local press reports, drug eradication led to an 80% decline in economic activity in the region and a fall in monthly incomes from around US\$1,000 to US\$300.<sup>57</sup>

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<sup>52</sup> EIU, *Country Report: Lebanon*, 3<sup>rd</sup> Quarter 1997, p. 16. EIU, *Country Report: Lebanon*, October 2001, electronic version, available at: <http://www.eiu.com/>

<sup>53</sup> Banque du Liban, *Quarterly Bulletin*, 4<sup>th</sup> quarter 1998, p. 49.

<sup>54</sup> For a report on the families controlling the drug trade, see *The National*, 1<sup>st</sup> July 2009, electronic version, available at: <http://www.thenational.ae/apps/pbcs.dll/article?AID=/20090702/FOREIGN/707019882&SearchID=73381150859305>, viewed on 8/2/10. Picard (2000, p. 305) writes that Syrian generals facilitated the cultivation of poppy between 1984 and 1988.

<sup>55</sup> *Christian Science Monitor*, 11<sup>th</sup> August 1995, p. 8.

<sup>56</sup> *Christian Science Monitor*, 11<sup>th</sup> August 1995, p. 8.

<sup>57</sup> EIU, *Country Report: Lebanon*, 3<sup>rd</sup> Quarter 1995, p. 14. *Christian Science Monitor*, 11<sup>th</sup> August 1995, p. 8.

The Hariri government sought to eradicate drug cultivation and to procure international aid for Ba'lbak-Hirmil. In 1994 the CDR signed an agreement with the UN Drug Control Programme at a meeting in Paris, where development projects worth US\$52 million were outlined.<sup>58</sup> However, US fears that the funds would fall into the hands of Hizballah, Israel's main enemy in Lebanon, held back the dispersal of funds, and only in November 1997 did the US government take Lebanon off a list of major drug trafficking countries.<sup>59</sup> The CDR itself was unwilling to commit substantial funds to Lebanon's peripheral areas and reconstruction funding was concentrated in the capital. Protectionist measures introduced in 1997 by an agriculture minister allied with President and landowner Iliyas Hrawi could not contain the anger of farmers in the Biqa'.<sup>60</sup>

It was the combination of rising poverty and government neglect, which set off the "revolution of the hungry" in May 1997. The immediate cause of the protest appears to have been the introduction of school fees of US\$300 at the beginning of the year.<sup>61</sup> On 4<sup>th</sup> July Shaykh Subhi al-Tufayli called for public protests in defiance of the ban on demonstrations. Estimates of the turnout varied between 3,000 and 10,000.<sup>62</sup> Demands included job creation, crop subsidies, free education, electricity and water, and state benefits and pensions for service with the resistance in lieu of army service (Norton, 2007 p. 106). Yet the protests were not only aimed at the government but also at the Hizballah leadership. Tufayli had been the movement's first secretary general in 1989 but had stepped down when Hizballah decided to participate in the 1992 parliamentary elections. In 1997 Tufayli mobilised Hizballah supporters who opposed the movement's direction. It was also a protest against the party's acceptance of drug eradication, the preponderance of Shi'i from South Lebanon rather

<sup>58</sup> EIU, *Country Report: Lebanon*, 3<sup>rd</sup> Quarter 1995, p. 14. EIU, *Country Report: Lebanon*, 4<sup>th</sup> Quarter 1995, p. 15.

<sup>59</sup> EIU, *Country Report: Lebanon*, 4<sup>th</sup> Quarter 1996, p. 20. *New York Times*, 11<sup>th</sup> November 1997, electronic version, available at: <http://www.nytimes.com/1997/11/11/world/world-news-briefs-syria-and-lebanon-off-us-drug-list.html?scp=7&sq=drug%20cultivation,%20lebanon&st=cse&pagewanted=print>.

<sup>60</sup> *Lebanon Report*, Winter 1997, p. 19.

<sup>61</sup> *MEI*, 7<sup>th</sup> November 1997, p. 16.

<sup>62</sup> EIU, *Country Report: Lebanon*, 4<sup>th</sup> Quarter 1997, p. 12. *MEI*, 25<sup>th</sup> July 1997, p. 19.

than the Biqa' among the movement's leadership, and the increasing role of cadres with technical and administrative skills for whom Hizballah provided a career path as well as an ideological mission.<sup>63</sup>

Hizballah did not fundamentally oppose neoliberalism. In order to understand Hizballah's stance on free market liberalism, it is best to go back to its two ideological inspirations. Firstly, Musa al-Sadr's *harakat al-mahrumin* (movement of the dispossessed), founded in the 1970s, aimed for the betterment of the Shi'i community and sought to break the power of traditional rural *zu'ama* in Southern Lebanon and the Biqa'. However, the movement also pursued a narrow sectarian agenda compared to its greatest rival for Shi'i sympathies, the Lebanese Communist Party (Norton, 2007 p. 19). The second strand of Hizballah tradition was Khumaini's revolutionary ideology. It embraced a populist class analysis but stopped short of attacking private property, leaving the door open for a post-revolutionary neoliberalism (Abrahamian, 1993 pp. 13-38). Both the Amal militia, which arose from Musa al-Sadr's movement, as well as Hizballah would later attract the sympathies of the rising Shi'i bourgeoisie, consisting of members of the sect who had accumulated wealth in Africa or the Gulf. This constituency may have opposed Hariri's monopolisation of the neoliberal agenda, but not the economic principles behind it. Rather than fundamentally opposing Hariri's neoliberalism, Hizballah sought a coexistence of reconstruction and resistance. This included engaging in philanthropy to alleviate poverty, rather than mobilising against the economic system itself (Norton, 2007 pp. 107-112). The Elissar project in the southern suburbs was an interesting test-case of Hizballah relations with the businessman-politician. Rather than fundamentally oppose the project, both Amal and Hizballah used their position as mediators between the residents of the area and the public agency charged with realising the project to tighten their clientelist control (Harb el-Kak, 2000). This relative neglect of social issues, particularly the concerns of agriculturalists in Ba'lbak-Hirmil, opened a gap that Subhi Tufayli was more than happy to fill. The protesters of the "revolt of the hungry" still adhered to Hizballah's symbolism, wearing the movement's headbands and carrying flags.<sup>64</sup> The protests took

<sup>63</sup> *MEI*, 25<sup>th</sup> July 1997, p. 20. *MEI*, 7<sup>th</sup> November 1997, p. 16.

<sup>64</sup> *MEI*, 7<sup>th</sup> November 1997, p. 16.

place in an area directly controlled by Syrian troops. There was speculation at the time that the Syrian regime tolerated the protests as a way of clipping Hizballah's wings without, however, disrupting its ability to attack the Israeli occupation in the south.<sup>65</sup>

In the face of Syrian toleration of the protests, the government at first seemed helpless. Public protests of the deprived ran against Hariri's image of the new Lebanon, in which neoliberal reconstruction would lead to rising wealth, which would in turn help overcome "extremism" and sectarian conflict. Information minister Bassim al-Saba' – a Hariri ally – simply stated that "the revolt of the hungry is not a political slogan which conforms to the social and economic realities of Lebanon."<sup>66</sup> Yet the government quickly agreed to provide an extra US\$1 billion in public spending for refugees, rural development, education, health, and public transport for the region. However, Hariri's proposals to finance this spending by either issuing government bonds or raising taxes on fuel met fierce opposition in cabinet and the parliament.<sup>67</sup> The spending was later reduced to US\$800 million. At the end of October the army was finally deployed to the Biqa' and started arresting protesters. Nabih Birri acted as a mediator, hoping to gain political advantage from Hizballah's difficulties within the Shi'i community.<sup>68</sup> The army crackdown prompted Tufayli to flee Lebanon in January 1998.<sup>69</sup> The "revolt of the hungry" is another example of popular protests against Hariri's policies which were allowed to proceed long enough to embarrass Hariri but were then both co-opted and repressed by rival elites.

### 4.3. Conclusions

Lebanese neoliberalism led to persistent poverty and deprivation. The majority of Lebanese continued to rely on resources controlled by politicians for access to high quality health and education services. This was the economic basis for sectarian clientelism. The neoliberal rent-creation mechanisms of Hariri and his technocrats are

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<sup>65</sup> *Lebanon Report*, Fall 1997, p. 11.

<sup>66</sup> *MEI*, 11<sup>th</sup> July 1997, p. 9.

<sup>67</sup> *MEI*, 24<sup>th</sup> October 1997, p. 9.

<sup>68</sup> *Lebanon Report*, Winter 1997, p. 6.

<sup>69</sup> EIU, *Country Report: Lebanon*, 2<sup>nd</sup> Quarter 1998, p. 15.

responsible for this: Reconstruction focused on Beirut and neglected the periphery, government over-borrowing resulted in crowding out. Business lending flowed primarily to services, especially real estate. The incidence of unemployment and deprivation therefore remained high.

The three examples of protest against Hariri's policies discussed here show several things. First, neoliberalisation is not a smooth process and does not only involve elite politics. Popular protests could prick the bubble of "techno-politics" that technocratic experts had built. Similarly, clientelism and sectarianism were not always successful in stymieing popular protest. Secondly, the discourses of protest against neoliberalisation reflected the class backgrounds of the protesters. This becomes particularly evident in the opposition to Solidere, where previous owners and displaced persons held competing conceptions of rights and claims to property. Finally, Hariri's rivals sought to co-opt popular protests: former militia leaders such as Nabih Birri, the Hizballah movement, the military establishment around Emile Lahud, Syrian allies in the Ba'th and SSNP were trying to gain control of the institutions representing the displaced in central Beirut, the trade unions, or the "revolt of the hungry". The aim was not to provide a viable alternative to neoliberalism but to embarrass and weaken Hariri and to gain a greater share of neoliberal rents.

## 5. Out of office 1998-2000: Hariri's sectarian turn and neoliberal populism

This chapter traces Hariri's journey from a businessman-politician primarily concerned with reconstruction to a specifically "Sunni" leader. In 1998, Hariri stepped down as prime minister because his rival, army commander Emile Lahud, had been elevated to the presidency with Syrian support. The new administration used the machinery of the state to impede Hariri's reconstruction. In order to regain power, Hariri set out to win the 2000 parliamentary elections. The surest way to success was to transform himself into a "Sunni leader" to pick up the votes from his community. This shift in Hariri's political strategy relates to the wider question whether neoliberalism as a cultural project helps or hinders sectarianism. Rafiq Hariri's clientelism of the Sunni community reproduced the "culture of sectarianism". It was a form of populism designed to win support for his neoliberal economic and political agenda. Hariri built health centres and schools in predominantly Sunni areas. He also marginalised Beirut's Maqasid association, used as a patronage instrument by Tammam Salam, the son of Sunni Beirut za'im Sa'ib Salam. The episode illustrates how Hariri was disciplined into behaving like a sectarian leader by Lebanon's confessional state into becoming something of a "super-za'im".

### 5.1. Hariri hemmed in

By the mid-1990s, Hariri was realising the constraints of his position. The Lebanese economy was not growing as fast as he had hoped and the problem of government debt was becoming obvious. Rival political elites – such as speaker of parliament Nabih Birri – were trying to curtail Hariri's influence. The popular Lebanese perception of Hariri was starting to turn, seeing him less as a selfless benefactor and more of a self-serving entrepreneur. This sentiment was best expressed in 1998 in a wildly popular book by Najah Wakim, a Nasserite parliamentarian who made detailed allegations of corruption among Lebanon's political elite, but particularly surrounding Hariri (Wakim, 2006). Hariri had so far relied on Syrian support – or at least toleration – for his economic project but from this side, too, he was facing increasing opposition by a regime, which resented the billionaire's independence in a political system they otherwise tightly controlled. This culminated in the election of chief of staff of the

army Emile Lahud as president in November 1998. Hariri and Lahud had a fraught relationship in the 1990s. Hariri opposed Lahud's election but had to accept him eventually, given strong Syrian backing. Hariri probably realised that Lahud was going to curtail his powers in cabinet and decided to step down as prime minister.<sup>1</sup>

At around the same time, a shift was occurring within the Syrian regime, which was undermining Hariri's relations with Damascus. In 1994 Hafiz al-Assad's son and anointed successor Bassil died in a car crash. Al-Assad's other son Bashar was subsequently groomed for succession, increasingly sidelining Hariri's allies within the Syrian regime. In late 1998, Bashar al-Assad appears to have assumed responsibility for the "Lebanon file" from vice-president 'Abd al-Halim Khaddam.<sup>2</sup> Hariri had built up close relations with Khaddam in 1985 when they had both rallied Lebanese support for the ill-fated "militia agreement". Another blow to Hariri's influence was the demotion of Hikmat Shihabi from the position of chief of staff in 1998. He was considered another ally of Hariri within the Syrian regime. In June 2000, Shihabi briefly sought refuge from the reach of the Syrian regime, fearing to be targeted in an "anti-corruption" drive.<sup>3</sup> Shihabi fled via Beirut airport, having spent time at Hariri's mansion recovering from medical treatment. There was a generational dimension in the sidelining of Shihabi and Khaddam, who may have been considered a threat by the younger generation around Bashar. There was also a sectarian dimension, because Khaddam and Shihabi were both Sunni Muslims in an 'Alawi-dominated regime. Finally, the negotiations between Syria and Israel came to nothing and eventually broke down in 2000. Hariri's reconstruction plan had, of course, been premised on peace in the region.

This shift in international politics affected relations within Lebanon's confessional elite cartel. In the first half of the 1990s the relative harmony among Lebanon's political elite was maintained through a Saudi-Syrian accord on the international level and rent-

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<sup>1</sup> *MEI*, 11<sup>th</sup> December 1998, p. 5.

<sup>2</sup> *MEI*, 29<sup>th</sup> January 1999, p. 18.

<sup>3</sup> *MEI*, 16<sup>th</sup> June 2000, p. 4-5.

creation and rent-sharing in the economic field. These pillars of stability were shaky. The Saudi-Syrian accord was undermined by the lack of progress in the Israeli-Syrian peace negotiations and the uneasy coexistence between Hariri's "reconstruction" and Hizballah's "resistance" agendas. Bashar al-Assad's rise from 1994 onwards upset this balance further. The rent-creation mechanisms came under increasing pressure as government debt increased. It was this latter arena, in which Lahud targeted Hariri's interests from 1998 onwards. Lahud entertained a "neo-Shihabist" vision of Lebanon. He had rebuilt the armed forces after the civil war in such a way as to overcome sectarian divisions. Just as Shihab had sought to rein in the power of the zu'ama, so Lahud was seeking to rein in what he regarded as the "corruption" of Lebanon's post-war elite, particularly Hariri. In his inaugural speech in November 1998, he asserted the "rule of law" and several of Hariri's protégés became the subject of corruption investigations.<sup>4</sup> Shihabist technocrat Salim al-Huss succeeded Hariri as prime minister. His new "technocratic" cabinet excluded most Hariri loyalists but also the former militia leaders. However, the close Syrian ally Michel al-Murr remained interior minister and became a key power-centre in the al-Huss cabinet.

The new government replaced Hariri's protégés at the head of reconstruction agencies. Nabil al-Jisr lost his post as head of the CDR and faced a corruption investigation.<sup>5</sup> Hariri loyalist Nicolas Saba was replaced by Yaqub Sarraf as governor (muhafiz) of Beirut. Solidere, Hariri's most important reconstruction project, ground to a halt. The company started complaining about delays in construction permits, which unnerved investors.<sup>6</sup> In 1999 Solidere reported that its profits had fallen by 30% and in 2000 the company recorded losses.<sup>7</sup> Hariri realised he had to return to office in order to regain control over the institutions that regulated reconstruction. Government over-borrowing continued, although the al-Huss government started the shift away from Lebanese Pound denominated debt to foreign currency debt. The importance of

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<sup>4</sup> *MEI*, 11<sup>th</sup> December 1998, p. 4-6.

<sup>5</sup> *MEI*, 11<sup>th</sup> December 1998, p. 6. *MEI* 13<sup>th</sup> October 2000, p. 16.

<sup>6</sup> EIU, *Country Report: Lebanon*, October 2000 (electronic version).

<sup>7</sup> *MEI*, 7<sup>th</sup> May 1999, p. 16-17. EIU, *Country Report: Lebanon*, July 2002 (electronic version). The moratorium on construction permits was reversed once Hariri was back in office and from 2001 onwards Solidere once again recorded profits. EIU, *Country Report: Lebanon*, July 2002 (electronic version).

Hariri's control of both the central bank and the finance ministry was illustrated when he had to cede this control. George Qurm, and implacable critic of Hariri and his technocrats, became the finance minister in the al-Huss government. The practice of selling more treasury bills than was required to finance the deficit stopped, the maturity of the Lebanese pound-denominated bonds on offer was extended, and the government started marketing "Eurobonds" denominated in foreign currencies instead.<sup>8</sup> These instruments carried lower interest rates because of the lower currency risk. The development of interest rates on two-year Lebanese pound-denominated T-bills illustrates the highly managed nature of interest rates in Lebanon: Having stood at 16.7% since March 1997, Qurm's arrival led to the managed reduction of the rate to 14.6%. This was not the only or even the most dramatic reduction in interest rates, but Qurm's actions antagonised Lebanon's commercial banks who started diversifying their operations to reduce over-reliance on government debt.<sup>9</sup> Qurm experienced opposition to his policy from the central bank, still dominated by Hariri technocrat Riyadh Salama, as well as from minister of economy, trade, and industry Nasir al-Sa'idi.<sup>10</sup> The latter had never become as closely associated with Hariri as Fu'ad Siniura or later Bassil Fulayhan had but he was a dyed-in-the-wool neoliberal who subscribed wholeheartedly to Hariri's economic project. Winner of the Milton Friedman post-doctoral scholarship at the University of Chicago, Sa'idi was vice-governor at the central bank from 1993 to 2003 and lead negotiator of the EU-Lebanese Association Agreement, a free trade pact with the EU.<sup>11</sup> Between 1998 and 2000, Sa'idi curtailed Qurm's ability to fundamentally change the mode of government debt management.

Hemmed in by political rivals and by Syria's allies, Hariri reacted by building up a popular base to win elections. In the early 1990s Hariri had sought to control economic policy but paid little attention to electoral politics. In the 1992 election Hariri did not put together a separate electoral list but was one of the major forces ensuring the

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<sup>8</sup> EIU, *Country Report: Lebanon*, January 2000 (electronic version).

<sup>9</sup> EIU, *Country Report: Lebanon*, October 1999, p. 20.

<sup>10</sup> EIU, *Country Report: Lebanon*, July 1999, p. 16. EIU, *Country Report: Lebanon*, January 2000 (electronic version).

<sup>11</sup> According to his curriculum vitae, available at [http://www.erf.org.eg/CMS/uploads/pdf/1184169330\\_Nasser\\_Saidi\\_CV07.pdf](http://www.erf.org.eg/CMS/uploads/pdf/1184169330_Nasser_Saidi_CV07.pdf), viewed on 1<sup>st</sup> July 2011.

success of the elections against a boycott, primarily among Lebanon's Christians. The vote was meant to legitimise the *pax Syriana* and the political order of Ta'if. Yet the Syrians and their Lebanese allies were faced with a boycott of predominantly Christian forces, which were feeling that they were the "losers" of Ta'if. One Muslim politician who supported the boycott was Tammam Salam, thus drawing the ire of the Syrian regime. Hariri tried to convince Salam to participate but failed, leading to friction between the two politicians.<sup>12</sup> By 1996 Hariri realised he had to become more openly active in elections to bolster his stand vis-à-vis his political rivals.<sup>13</sup> His most important battle ground was Beirut, where he faced two established Sunni politicians: Salim al-Huss and Tammam Salam. Lebanese electoral politics revolves around compiling "lists" in alliances that often cut across political rivalries. In Beirut Salam and al-Huss refused to join a list largely determined by Hariri. Al-Huss formed a rival list, while Salam ran as an independent. A third list was headed by the leftist parliamentarian Najah Wakim who was a fierce critic of Hariri. Al-Huss, Salam, and Wakim all made it to parliament but Hariri's list won 14 of 19 seats in the capital. Hariri had started engaging in an electoral contest with the established representatives of "Sunni Beirut" but had not yet vanquished them completely. In the rest of the country, Hariri picked up seats for political allies by getting them on the electoral lists of local power brokers. Particularly important were Hariri's deals with Walid Junblatt and Nabih Birri, who were benefiting from electoral rules tailored on their needs by the Syrian regime.<sup>14</sup> Hariri also became active in the 1998 municipal elections, sponsoring thousands of candidates who then owed their allegiance to him. He was particularly successful in Sidon and Beirut.<sup>15</sup>

## 5.2. Maqasid as a "bank of political resources"

The way in which Hariri built up a popular support base and the sectarian logic of this strategy are best illustrated by looking at the rivalry with Tammam Salam. Salam was

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<sup>12</sup> According to an advisor to Salam. Interview with Muhammad Mashnuq, Beirut, 6<sup>th</sup> November 2008.

<sup>13</sup> Unless indicated otherwise, the overview of the 1996 election is from: *Lebanon Report*, Fall 1996, electronic version, available at: [http://www.lcps-lebanon.org/pub/tlr/96/fall96/1996\\_elections.html](http://www.lcps-lebanon.org/pub/tlr/96/fall96/1996_elections.html), viewed on 11<sup>th</sup> February 2010.

<sup>14</sup> In Mount Lebanon, electoral districts followed the *qaza*, a small administrative district, favouring Junblatt. The muhafazat (governorates) of South Lebanon and Nabatiyya were combined into one to favour Birri.

<sup>15</sup> EIU, *Country Report: Lebanon*, October 1998, p. 15-16.

the representative of a pre-war political family, son of a leading Beirut za'im, traditionally allied with the pre-war bourgeoisie. Hariri was a leading member of the new contractor bourgeoisie. Both were allied to Saudi Arabia. In their electoral competition in 2000, the provision of philanthropy to Beirut's Sunni community became a central issue. While Salam headed the Maqasid association, Hariri revived the Hariri Foundation and opened health centres and schools, while exploiting the financial weaknesses of Maqasid.

Maqasid's pre-war financing had been based on the privileged position of Beirut's Sunni bourgeoisie. It rested on two pillars, grounded in the political economy of pre-war Lebanon: returns on real-estate investment and school fees. In 1967/68, Maqasid derived 39.3% of its income from property rents (Schatkowski, 1969 p. 150). Maqasid owned warehouses and office buildings to cater for the booming services sector. The land was donated or obtained from the government. Construction was financed through bank loans, which the Maqasid obtained with relative ease, no doubt helped by the close relations the Maqasid directors maintained with the city's bankers. Beirut's Sunni bourgeois families were using their privileged access to resources – land, bank credit – to invest in real-estate ventures, which were catering for the expanding services sector. The association owned an estimated 17% of Beirut's commercial centre before the war.<sup>16</sup> The second pillar of financing were school fees, which accounted for 47.2% of income in 1967/68. This reflected the expansion of the Sunni Beirut middle class, which the Maqasid itself had helped to create by expanding education to Sunni Muslims. The flipside of the coin was, of course, that the majority of the capital's Muslims relied on Maqasid to provide education which was not available from the state sector, or at least not of the same quality as Maqasid schools.

Maqasid played a central role in constructing a specific "Sunni Beirut" identity.

Maqasid was founded by Beirut's Sunni notables in 1878 in response to the expansion

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<sup>16</sup> The figure of 17% comes from the current Maqasid president Amin al-Da'uq. He does not specify whether he is referring to the total number of buildings or built-up area. *Al Nahar*, 9<sup>th</sup> January 2004, p. 13.

of Christian missionary schools and to provide access to a “modern” education for Beirut’s Muslim children. Maqasid was thus very much a Sunni association: Maqasid schools did not cater for Christians, religious education played a big role in the curriculum, and the Sunni mufti had a great say.<sup>17</sup> Maqasid was also strongly “Beirutian”:<sup>18</sup> The philanthropic practices of the Maqasid and its celebrations, publications, speeches, and rituals made constant reference to a Sunni Muslim and Beirutian identity. Maqasid “represented” Sunni Beirut, but also established a social hierarchy, with the Sunni notables at the top. Between its foundation in 1878 and the 1960s, Maqasid was transformed into a “modern bureaucracy” run by Beirut’s Sunni bourgeoisie, consisting of professionals, businessmen, politicians, etc. drawn from the small pool of Beirut “notables” (Schatkowski, 1969 pp. 100, 106-107).

The Maqasid was thus an expression of the power of Beirut’s Sunni bourgeoisie – both in terms of financing, which was linked to the political economy that underpinned the power of this class, and in terms of the vision of community it promoted: Sunni, Beirutian, and ordered by a strict hierarchy with the city’s notables-turned-bourgeoisie on top. The presidency of the Maqasid therefore provided control of “a bank of political resources” – both economic and symbolic – by which Beirut’s Sunni bourgeoisie maintained its power (Johnson, 1986 p. 111). The position was fought over by Beirut’s leading or aspiring Sunni leaders (Johnson, 1978). However, the politician Sa’ib Salam managed to stay in the post of Maqasid president from 1958 to 1982, when he handed over to Tammam. Sa’ib Salam gained firm control of the association by increasing the constitutional power of the Maqasid presidency, attaining extensive

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<sup>17</sup> The current president of the Maqasid, Amin Da’uq, maintained that Christians used to attend Maqasid schools prior to the civil war. Interview with Amin Da’uq, president of the Maqasid Association, Beirut, 30<sup>th</sup> January 2008. However, the proposed 1968 constitution said explicitly that Maqasid offered education for “Muslim children” (Schatkowski, 1969 p. 65). Johnson (1978, p. 57) is also under the impression that schools were confined to Muslim children. Shi’i Muslims constituted only a minority of students and were not represented on the board of directors. Johnson (1978, p. 75, footnote 45) writes that he knows of no non-Sunni or non-Beirutian being elected to the board. See also Chahine (1991 p. 244).

<sup>18</sup> Maqasid started in Beirut and opened its first schools here. Only in Beirut did it maintain secondary schools. While Beirut’s Maqasid maintained primary schools in predominantly Sunni rural areas, it stayed out of other Lebanese cities with strong Sunni populations, such as Tripoli or Saida, which were dominated by separate networks of notables. The members of the board of trustees all came from Sunni Beirutian families (Johnson, 1978 pp. 75, FN 45).

powers of patronage, which could be reconverted into votes at election time (Schatkowski, 1969 pp. 84-90, 115, 122): selective access to free or subsidised education and employment for a thousand people. Salam's status of "representing" Sunni Beirut was the basis on which he could stake a claim to the post of the prime minister, the highest position reserved for a Sunni Muslim in the confessional state. As Bourdieu has noted, "representing" a group as a leader is a central building bloc in the construction of group identity (Bourdieu, 1991 p. 204). The requirement that politicians who seek office need to "represent" their community was therefore a central mechanism in the reproduction of the culture of sectarianism. The confessional state shaped leaders' sectarian strategies, rather than a sectarian society overwhelming a "weak" state.

Salam's leadership suffered from the inherent contradiction that he was the representative of the Sunni bourgeoisie, but claimed leadership of all of "Sunni Beirut", including the poorer workers in services and industry. The inherent contradictions of representing "Sunni Beirut" were easier to conceal when political fault-lines ran primarily along sectarian lines, as in the brief 1958 civil war. Lebanon's Sunni zu'ama adopted Nasser's Arab nationalist slogans while downplaying his social reformist agenda. Yet the contradictions of Salam's leadership came to light under Shihabist presidencies 1958 to 1970, which challenged the economic power of the bourgeois families and the political power of the zu'ama. Presidents Shihab and Hilu refused to appoint Salam prime minister. The increased number of state schools in the countryside prompted Maqasid to close some of its village schools.<sup>19</sup> Shihab's ally, Druze leader Kamal Junblat, used Nasserite "socialism" to take over parts of Salam's popular following among Sunni Beirutis.

The challenge by Presidents Shihab and Hilu to the power of the zu'ama prompted Salam to shift his international alliances from Egypt to Saudi Arabia. Nasser, the "revolutionary" Arab nationalist, was wildly popular in Lebanon's Sunni Muslim

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<sup>19</sup> Interview with Amin Da'ouq, Beirut, 30<sup>th</sup> January 2008.

community, giving Nasserism a sectarian dimension. Salam had adopted a Nasserite stance on Arab nationalism while downplaying the social revolutionary content of Nasserism. The Egyptian president was engaged in a regional rivalry with the conservative monarchy of Saudi Arabia under King Faisal. The Saudi royal family legitimises its rule with reference to conservative Wahhabi Islam, thus making it a self-consciously “Sunni” power in the region. Salam switched to Saudi support in the 1960s because of Nasser’s pact with Shihab (Johnson, 1978 p. 62). Salam came to benefit from Saudi financial support for the Maqasid association at a time when he was cut off from state patronage. Salam was an attractive ally to Saudi Arabia because he enjoyed the status of a political leader in Lebanon and could therefore be useful in projecting Saudi power in the Lebanese arena. Salam used his domestic political capital – his status as “representative” of Sunni Beirut – to procure an international ally. The financial capital he thus derived in turn helped him maintain his domestic leadership status.

Together with other zu’ama, Salam managed to elect an anti-Shihabist candidate – Sulaiman Franjiyya – to the presidency in 1970. Yet rising social tension within Lebanon, the alliance of the PLO with Lebanese leftist forces, and the arming of Christian militias led to the outbreak of civil war in 1975. In the predominantly Sunni Muslim quarters of Beirut the Murabitun militia – financed by the Palestinian Fatah and by Libya (Johnson, 1986 p. 199) – challenged Salam’s claim to be the legitimate “representative” of Sunni Beirut. Murabitun’s “progressive” Nasserite ideology contrasted with the conservatism of the Saudi King, whose support Sa’ib Salam had been seeking. As the war dragged on, the Murabitun also became increasingly anti-Shi’i (Johnson, 1986 p. 213). The Murabitun used financial and political capital derived from the international realm, mobilising a popular base to confront the political representative of the commercial-financial bourgeoisie.

As discussed in chapter 2, Lebanon lost its position as financial intermediary between the Arab East and Western financial markets. This undermined the economic power of Lebanon’s pre-war bourgeoisie and necessarily affected the Maqasid, the financing of

which was closely linked to the fate of Beirut's Sunni bourgeoisie. Rent income from real estate, which had been a pillar of Maqasid financing, plummeted. Beirut's commercial centre became a no-go area and many of the association's buildings were destroyed. Due to declining middle class incomes the Maqasid started catering for an increasingly impoverished community and had to reduce school fees (Chahine, 1991 p. 243). The Maqasid therefore became completely dependent on Saudi financial aid. In 1975 it received US\$2.6 million from Saudi Arabia, in 1980 Crown Prince Fahd promised to finance a technical school in Beirut to the tune of US\$9 million, and from 1981 to 1993, the Maqasid received an annual subsidy of LL100 million.<sup>20</sup> When the political and economic power of Beirut's Sunni bourgeoisie had come under attack by Shihab, Salam had sought an international ally to bolster his position. As the access of Beirut's Sunni bourgeoisie to economic capital fell during the civil war, Salam's international alliance with Saudi Arabia became decisive for maintaining his position as the leader of "Sunni Beirut", based as it was on the ability to finance Maqasid's operations.

### **5.3. Hariri becomes a "Sunni leader" 1998-2000**

In 1982 Sa'ib Salam handed the presidency of Maqasid to his son and in 1985 he went into exile in Switzerland. Murabitun itself was defeated in 1982 by Israeli forces and again in 1984 and 1985 by the Shi'i Amal and Druze PSP. Islamist groups such as the Jama'a Islamiyya and al-Ahbash appeared on the Sunni political scene. By the end of the civil war, Lebanon's Sunni politics was fragmented among the remnants of popular Nasserite movements, Islamist groups, zu'ama such as Salam in Beirut and 'Umar Karami in Tripoli, and members of the new contractor bourgeoisie such as Rafiq Hariri. Beirut's Sunni bourgeoisie resented Hariri for appropriating their properties in central Beirut. Many in this class saw Hariri, the farmer's son from Sidon, as an outsider in their circles. The remnants of popular Nasserite movements and Sunni Islamist groups challenged Hariri as someone who did not do enough for his Sunni community.<sup>21</sup> The

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<sup>20</sup> *MEES*, 15<sup>th</sup> August 1975, p. 12; *MEES*, 10<sup>th</sup> March 1980, p. II; *Al Nahar*, 9<sup>th</sup> January 2004, p. 13.

<sup>21</sup> Popular neighbourhood committees in the tradition of the Nasserite movement staged protests in front of Hariri's mansion in 1993. They accused the prime minister of neglecting the needs of the Sunni

Islamist al-Ahbash engaged in a campaign against both Hariri and Tammam Salam in 1996 over the sale of cemeteries by Maqasid to Solidere.<sup>22</sup> Ahbash was thought to enjoy the support of the Syrian regime and had one member of parliament.

At the same time, religious authority in the community was highly fragmented. The position of mufti had remained vacant since Shaykh Hassan Khalid had been assassinated in 1989. His deputy, Muhammad Rashid al-Qabbani, was the most obvious choice as his successor. However, Syria was said to have prevented the election, happy to maintain the power-vacuum at the head of the Sunni community. Islamic groups such as Al-Ahbash opposed Qabbani and sought to promote one of their own to the position. The Sunni community thus had a prime minister who was more concerned with the economy than communal politics, zu'ama who had been weakened by the civil war, remnants of the popular Nasserite movement, and an array of Islamist movements, who were also unable to impose hegemony on the community. It was these forces that Hariri had to contend with when he was trying to impose his authority on the Sunni community, a process which started in 1996.

An important step in gaining control in the Sunni camp was the election of Qabbani to the position of mufti in December 1996. Syria had finally signalled its approval when Qabbani was received in Damascus by Syrian President Hafiz al-Assad two days prior to the election. According to accounts by both Rougier (2007, p. 130-131) and Skovgaard Petersen (1998, p. 78-79), the electoral process was tightly managed by advisors to Rafiq Hariri in order to produce the desired outcome. One was Muhammad Samak, who had started liaising with Dar al-Fatwa on Hariri's behalf as early as the 1980s and was a member of its advisory council.<sup>23</sup> The other was Ridwan al-Sayyid, a Lebanese University professor who advised Hariri on Islamic politics (Iskandar, 2006 p. 70). They

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community after the government had closed a Sidon dispensary run by the popular committees in order to return it to its Christian owner and then reneging on a promise to reopen the dispensary at a different site. *Lebanon Report*, Dec. 1993, p. 7.

<sup>22</sup> Ahbash considered such sales to be in contravention of the rules of religious endowments (Skovgaard-Petersen, 1998 pp. 75-77).

<sup>23</sup> For instance, in 1988 Samak discussed the distribution of Saudi aid with Mufti Hassan Khalid. *Al Nahar*, 8<sup>th</sup> January 1988, p. 4. *Lebanon Report*, April 1994, p. 10.

composed a new electoral law which was passed in the morning before the election. The new rules reduced the number of electors from over one thousand to 96, including only Sunni politicians and members of the Sunni religious establishment. Members of Islamist organisations such as al-Ahbash or Jama'at Islamiyya were excluded to ensure Qabbani's election. Rougier (2007, p. 131) quotes one cleric opposed to this highly managed electoral process as lambasting "Rafiq al-Hariri, who wants to impose total control over all public and private institutions" and said that Dar al-Fatwa had "become an annex of the Lebanese government." By elevating Qabbani to the position of mufti, Hariri won an ally who could help him impose at least a semblance of discipline on Lebanon's unruly Sunni religious scene.

Hariri took up some of the pet-causes of the new mufti but not all of them. In 1998, President Iliyas Hrawi allied with parliamentary speaker Nabih Birri to pass a law that would have introduced civil marriage. Lebanese personal status law is a matter of the different communities, making cross-confessional marriages impossible unless one party converts. The Sunni Mufti Qabbani led a forceful campaign against the law, allying with Sunni Islamists and gaining support from Shi'i, Druze, and Christian religious leaders. Hariri took Qabbani's side and refused to sign the law. This had two advantages for Hariri. First, he could present himself as the advocate of a "Sunni" cause, one that was spearheaded by the mufti and by Sunni Islamist groups. Equally important – if not more so – were power struggles within the "troika" of president, prime minister and speaker of parliament. Hariri was opposing a policy introduced by Hrawi in alliance with Birri. Of course, these two leaders were representing "their" confessional communities, too, thus giving such power-struggles a sectarian dimension (Ofeish, 1999 p. 111).<sup>24</sup>

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<sup>24</sup> If power struggles within the troika were not involved, Hariri was much less ready to embrace the mufti's pet causes. In 1996, Qabbani was seeking charges against the singer Marcel Khalifa for insulting Islam. Khalifa had used a poem of Palestinian poet Mahmud Darwish, which contains citations from the Quran. Hariri reportedly suppressed the case by putting pressure on the judiciary and on Qabbani. He was probably afraid for Lebanon's open image. Both Khalifa and Darwish are extremely popular as advocates of the Palestinian cause and Hariri would have had very little to gain politically from supporting Qabbani's initiative. *MEI*, 15<sup>th</sup> October 1999, p. 15.

In 1996 Hariri started moving against Maqasid. As mentioned above, Maqasid had become completely dependent on Saudi financing during the civil war. Since Maqasid had started catering for an increasingly impoverished population in Beirut, school fees brought in less than during the pre-war era. More importantly, income from property rent never reached pre-war levels: its share of total income fell from 42% in 1967/68 to 2% in 1997/98 (Schatkowski, 1969 p. 150; Makassed, 1998 p. 15). Maqasid's properties in Beirut's commercial centre were expropriated in exchange for shares while some land was sold to Solidere (Skovgaard-Petersen, 1998 p. 75). Although the approval of Maqasid – and hence of the Salams – appears to have been bought off by providing the association with compensation higher than that received by other property owners (Schmid, 2005 p. 19) as well as a seat on the Solidere board for a Maqasid representative, these perks were not enough to make up for the loss of pre-war property rent. Property rights had effectively passed from the old Beirut bourgeoisie to the new contracting bourgeoisie, a fact deeply resented by some representatives of the old order. In an ironic twist, Hariri pledged that the profits he was to derive from US\$125 million worth of Solidere shares he bought in January 1994 would go directly towards financing the Hariri Foundation, as well as other charities chosen at Hariri's discretion.<sup>25</sup> While the Hariri Foundation thus gained Solidere as a source of financing, Maqasid could not recover the city centre as a source of income. The association's financial situation was severe, with debts of US\$15 million in 1996.<sup>26</sup> Only Saudi support was keeping Maqasid afloat but from 1996 onwards, this financial support ceased. While the current Maqasid president Amin al-Da'uq points to the cost of the Gulf war and the falling oil price as reasons why the kingdom stopped payments, it is difficult to avoid the conclusion that the Saudis took this step to help Hariri in his political rivalry with Salam.<sup>27</sup>

In previous chapters we have seen how Hariri had recruited experts in their fields to fulfil various tasks: the Oger engineers around Fadl Shalaq who cleaned up Beirut in 1982 and then ran the CDR after 1991, the bankers Riyadh Salameh and Fu'ad Saniora

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<sup>25</sup> *Al Nahar*, 8 January 1994, p. 1, p. 15.

<sup>26</sup> *Al-Nahar*, 9<sup>th</sup> January 2004, p. 13.

<sup>27</sup> *Al Nahar*, 9 January 2004, p. 13. Interview with Interview with Amin Da'uq, Beirut, 30<sup>th</sup> January 2008.

who came to run the central bank and the finance ministry respectively, or the technocrats from the IMF who came to play an increasingly important role in economic policy. Similarly, he would use his allies to liaise with confessional leaders. For instance, Dawud Sayigh managed Hariri's relations with the Maronite patriarch, the leftist writer Muhammad Kishli was Hariri's go-between with the trade unions,<sup>28</sup> and Hariri's advisor Muhammad Samak was tending relations with the mufti.<sup>29</sup>

When Hariri decided to style himself as a "Sunni leader" by providing social services, he also procured the relevant "experts" by poaching them from Maqasid. Even before the 1996 election, Hariri had won over Salim Diab, a Maqasid board member who had previously been a Salam loyalist. Diab was the chairman of the board of Ansar sport club and had the ability to mobilise Beirut's youths during election time. Ansar had received financial support from Hariri as early as 1986 but the fall-out between Diab and Salam probably occurred later.<sup>30</sup> Ansar played a significant role in mobilising support for Hariri during the 1996 elections (Majed and Young, 1996 p. 50). In 1998 Diab founded another charity, the Beirut Association for Social Development, which played a role in the election campaign in 2000. There is an economic element to the relationship of Hariri and Diab, who owns 49% of the engineering consultancy LACECO International (Summer, 2005 p. 78), which benefited from several contracts from Saudi Oger.<sup>31</sup> Former Oger employee Bilal Alaily is the company's executive director.

Hariri also won over several Maqasid board members, such as Muhammad Ghaziri and Sami Nahas, who were both on the Solidere board. The alliances of Maqasid board members were not determined by ideological issues. The fact that Hariri was simply a more powerful politician than Salam was likely to have been decisive. When Hariri and Salam fell out, Beirut's Sunni notables had to make up their mind where their loyalties

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<sup>28</sup> *Lebanon Report*, spring 1996, p. 7. (Abu Khalil, 1999 p. 100)

<sup>29</sup> *Al Nahar*, 8<sup>th</sup> January 1988, p. 4. *Lebanon Report*, April 1994, p. 10.

<sup>30</sup> *Al Safir*, 9<sup>th</sup> May 1986, p. 10.

<sup>31</sup> LACECO contributed to Oger projects such as a resort in Aqaba or the central district of Jidda, according to the LACECO website, available at <http://www.lacecoi.com/kpmasterplan.html> and <http://www.lacecoi.com/kpresidential.html>, viewed on 1<sup>st</sup> July 2011.

lay and many gravitated towards the billionaire contractor rather than the son of the za'im. Diab left the Maqasid board but many members associated with Hariri stayed on after 1996. Hariri also poached health and education professionals from Maqasid. For instance, the general manager of the health and social services directorate, Dr. Nur al Din al Kush, had previously been a medical doctor with Maqasid before setting up a network of Hariri Foundation health centres.<sup>32</sup> Beyond Maqasid, Hariri attracted other figures from popular and Nasserite Sunni movements. Walid 'Ido had been a magistrate but had also been a supporter of Murabitun during the civil war.<sup>33</sup> He was elected to parliament on Hariri's list in 2000 and vociferously attacked Tammam Salam's presidency of Maqasid.<sup>34</sup>

Hariri did not just poach personnel and board members from Maqasid but also expanded the grassroots provision of services to the urban poor in predominantly Sunni neighbourhoods. In 1999 he built a school in Tariq al-Jadida, a predominantly Sunni neighbourhood of Beirut, which had been a stronghold of the Murabitun during the civil war. In the first eight months of 2000 – before the parliamentary elections in September of that year – the Hariri Foundation opened no less than six health centres in Beirut. The main centre was situated in Tariq al-Jadida.<sup>35</sup> Five "satellite centres" were opened in areas of the capital which also tended to be predominantly Sunni or have large Sunni populations.<sup>36</sup> Unlike Maqasid, Hariri could count on financial support from the Gulf to shoulder the high set-up cost of his health centres.<sup>37</sup> Hariri used the opening of these health centres in his campaign, bringing together the members of his Beirut electoral list.<sup>38</sup> Another initiative founded in 1998 was the Beirut Association for

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<sup>32</sup> Interview with Amin Da'ud, Beirut, 30<sup>th</sup> January 2008. Interview with Tammam Salam, Beirut, 23<sup>rd</sup> January 2008.

<sup>33</sup> *Guardian*, 18<sup>th</sup> June 2007, online edition, viewed on 16<sup>th</sup> February 2010, available at: <http://www.guardian.co.uk/news/2007/jun/18/guardianobituaries.syria>

<sup>34</sup> *Al Nahar*, 9<sup>th</sup> January 2004, p. 13.

<sup>35</sup> Website of the Directorate of Health and Social Services of the Hariri Foundation, <http://www.Haririmed.org/ourMedicalCenters.aspx>, viewed on 21 January 2008.

<sup>36</sup> Ras Beirut, Ras al-Naba', Dharif, Bashura, 'Aramun-Bshamun.

<sup>37</sup> For instance, the health centres in Tariq al-Jadida and Tripoli received financial support from Saudi businessman Prince Walid bin-Talal, while the health centre in 'Akkar was supported by the Kuwait Fund. *Al Nahar*, 31<sup>st</sup> December 1999, p. 4. *Al Nahar*, 10<sup>th</sup> May 2002, p. 2002. *Al Nahar*, 7<sup>th</sup> October 2002, p. 20.

<sup>38</sup> *Al Nahar*, 22 July 2000, p. 16.

Social Development, set up by Salim Diab.<sup>39</sup> Its social centres are again mainly – but not exclusively – located in predominantly Sunni areas.<sup>40</sup> Hariri also worked to organise the student loan recipients of 1983-1996 more formally: in 1994 an alumni association was founded and a year later it had about 450 members.<sup>41</sup> The alumni association even started playing a political role, for instance sending delegations to liaise with other troika members on Hariri's behalf.<sup>42</sup>

Maqasid found it increasingly difficult to compete with the Hariri Foundation. Financial difficulties forced the association to close down some schools, while teachers and other staff were made redundant.<sup>43</sup> The Hariri Foundation provided superior facilities in its schools and health centres and attracted teaching and medical staff previously employed at Maqasid. Hariri allies such as Walid 'Idu accused Salam of "politicising" the association and being responsible for the parlous state of its finances.<sup>44</sup> The suggestion was that Hariri and his Foundation were better able to work for the betterment of the Sunni community than Salam and the Maqasid. Hariri thus superseded Salam as the prime "representative" of Sunni Beirut. As a result of Maqasid's decline, Salam lost his seat in the 2000 parliamentary elections, while all the candidates on Hariri's list were elected to parliament. Salim al-Huss also lost his seat and later complained that Hariri's victory was simply due to the billionaire's spending power.<sup>45</sup> Salam decided to step down as Maqasid president in order to, as he said, avert any damage to the association.<sup>46</sup> Amin al-Da'uq, a long-time ally of Salam, assumed the presidency and proceeded to "depoliticise" the association. In 2003, several new faces on the Maqasid board illustrated Hariri's rising, but not absolute,

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<sup>39</sup> Website of the Beirut Association for Social Development, available at <http://www.beirutassociation.org/>, viewed on 1<sup>st</sup> December 2009.

<sup>40</sup> Social centres are located in Dharif, Nahr, Watta Musaitba, Tariq al-Jadida, 'Aramun, Ras al-Naba'.

<sup>41</sup> *Al Nahar*, 31<sup>st</sup> October 1995, p. 3.

<sup>42</sup> In December 1996, for instance, a delegation of the Hariri Foundation alumni association headed by its president Bilal Hammad visited Nabih Birri. *Al Nahar*, 21<sup>st</sup> December 1996, p. 20.

<sup>43</sup> *Al Nahar*, 9 January 2004, p. 13.

<sup>44</sup> *Al Nahar*, 9 January 2004, p. 13; *Al Nahar*, 10 January 2004, p. 10

<sup>45</sup> Huss put his campaign expenses at US\$273,940 while Hariri said he spent \$2 million on himself and his 17 allies. *Middle East International* writes that the figure was even higher and Hariri spent US\$50 million in Beirut and the districts of his allies. That support included paying for a student's university or technical education or \$200 food vouchers for anyone pledging support for a candidate. *MEI*, 15<sup>th</sup> September 2000, p. 4-6.

<sup>46</sup> Interview with Tammam Salam, Beirut, 23 January 2008.

influence on the board.<sup>47</sup> Once Hariri stopped perceiving Maqasid as a political threat, he started supporting it again: In 2003, Hariri forgave US\$35 million in Maqasid debt, held by his Banque Méditerranée.<sup>48</sup>

Two points are crucial to make here. The first is that Hariri's ability to assume the mantle of "Sunni" leadership in Beirut was due to his superior ability to finance education and health services. This reflected the decline of the pre-war bourgeoisie and the rise of the new contractor bourgeoisie. Beirut's pre-war bourgeois Sunni families did not so much disappear, but in the 1990s their political representation shifted from a *za'im* (Salam) to a new contractor (Hariri). Yet the relationship of Beirut's notables with the two leaders was different. Sa'ib Salam had been *primus inter pares* among Beirut's Sunni notables in the pre-war period, having to fight off challenges for the Maqasid presidency and for the post of prime minister. Hariri was immune to such challenges. The pre-war Maqasid had relied on financing grounded in economic resources controlled by the Sunni bourgeois families as a whole. In contrast, Hariri's philanthropy relied solely on his own wealth, originally accumulated as a contractor in Saudi Arabia but increasingly linked to rent appropriation in Lebanon's post-war economy. As such, Hariri as a representative of Lebanon's new contractor bourgeoisie had not only subdued the Salams but Beirut's Sunni bourgeois families as a whole.

This difference in financing between Salam's Maqasid and the Hariri Foundation finds expression in the conspicuousness of Salam and Hariri in their respective philanthropic endeavours. The Salam name does crop up occasionally in the different institutions associated with Maqasid but on the whole the association presents itself as an initiative by Beirut's Sunni notables rather than springing from the "vision" of a

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<sup>47</sup> *Al Nahar*, 18<sup>th</sup> February 2003, p. 15. Newcomers considered close to Hariri included Walid Kibbi, Amin 'Itani, and Khalid Qabbani.

<sup>48</sup> *Al Nahar*, 9 January 2004, p. 13.

particular individual.<sup>49</sup> In contrast, the Hariri Foundation bears the founder's name and his image is conspicuous in the health centres and schools from posters and banners outside the centres to the employees' PC desktop background.<sup>50</sup> The way in which Beirut's Sunni notables relate to Hariri is also different. Those among the Sunni bourgeois families who resented Hariri's power tended to portray him as lacking culture and being a usurper.<sup>51</sup> Yet such narratives are muted by a search for commonalities among those who had come to accept Hariri's dominance in Beirut. Whether they had been fellow activists in the same movement or not, several of Beirut's Sunni notables cited Hariri's Arab nationalist activism as a young man as a common link.<sup>52</sup>

The expansion of health centres did not stop in 2000 but continued thereafter. It is worth having a closer look at the modes of clientelism pursued by the Hariri Foundation in order to compare it to Maqasid and to relate these differences to Hariri's position as a newcomer to the political system who was nonetheless "disciplined" into behaving like a specifically Sunni leader. It is worth starting with the confessional aspect of the Hariri Foundation medical centres. The foundation stresses that the aim of its health and social services directorate is the provision of primary health care to all Lebanese communities without discrimination to race, gender or religion and that Hariri Foundation medical centres do not turn anyone away.<sup>53</sup> In that sense, the Hariri Foundation health and social services mirrored the claims about non-sectarian recruitment to the Hariri Foundation student loan programme 1983 to 1996. The student loan programme did not actively dissuade non-Sunni Muslims from

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<sup>49</sup> Maqasid is associated with the "Sa'ib Salam Foundation", which gives university scholarships, and runs the Salim Salam dispensary (Maqasid, 2003 p. 10).

<sup>50</sup> As observed by the author during visits to a Hariri Foundation health centre and an office of the foundation 22<sup>nd</sup> January 2008 and 29<sup>th</sup> January 2008.

<sup>51</sup> I did not encounter this sentiment in my interviews in this milieu, except for some patronising comments on Hariri's level of formal education. However, several interviewees confirmed that this sentiment exists among some Beirut notables. Interview with 'Abd al-Majid Dabbus, Beirut, 11<sup>th</sup> February 2008.

<sup>52</sup> Interview with Faruq Jabr, Beirut, 25<sup>th</sup> February 2008. Interview with Muhammad Mashnuq, Beirut, 6<sup>th</sup> November 2008.

<sup>53</sup> According to several Hariri Foundation representatives: Nur al-Din al-Kush, general manager, directorate of health and social services, Hariri Foundation, presentation at the American University Beirut on 6<sup>th</sup> February 2008. Suha al-'Akkar, Beirut, 29<sup>th</sup> January 2008.

applying but since recruitment worked through religious and social organisations of the Sunni community, access was simply much easier for Hariri's own confessional group (see chapter 2). Similarly, the health centres were more accessible to Sunni Muslims due to their location. The main health centre in Beirut was opened in 2000 in Tariq al-Jadida, in the heart of Sunni Beirut. Smaller "satellite centres" also tended to be located in predominantly Sunni areas. In 2001 two centres were opened in Sidon, followed by the main centre for the north in Tripoli in 2002 and a satellite centre in the 'Akkar.<sup>54</sup> The centres were thus located primarily in regions where Lebanon's Sunni population is concentrated.

Winning over the Sunni community was at the core of Hariri's electoral strategy but it was not the end of it. Melani Cammett and Sukriti Issar (2010) argue convincingly that electoral considerations shaped the strategy of the Hariri Foundation. They conducted their research after Rafiq Hariri's death in 2005, when his son Sa'd was in charge, but their findings are a reasonable approximation of the elder Hariri's strategy, too. The authors found that the targeting of "out-group" areas, i.e. with a predominantly non-Sunni population. Compared to Hizballah, the Hariri Foundation provides more services to non-sect members. The authors explain this variation with reference to the primary aims of the two organisations: while the Hariri Foundation is mainly seeking electoral support, Hizballah are also mobilising the Shi'i population behind a military campaign. As Hizballah's strategy was becoming more focused on winning elections after Hariri's assassination, they shifted charitable giving to heterogeneous areas. With regard to Hariri, Cammett's and Issar's evidence shows that Hariri Foundation giving was not primarily driven by a sectarian mindset. While the focus was primarily on predominantly Sunni regions, this focus was not exclusive.

There is nothing to suggest that Hariri would not have been happy to build up a political following outside his Sunni community, too. However, his political opponents

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<sup>54</sup> Information about the centres is available on the website of the directorate of health and social services of the Hariri Foundation, available at <http://www.haririmed.org/ourMedicalCenters.aspx>, viewed on 21<sup>st</sup> January 2008. *Al Nahar*, 28<sup>th</sup> July 2001, p. 19.

could stifle the expansion of the Hariri Foundation onto their sectarian turf in a variety of ways. While reluctant to discuss such “political” aspects of the Hariri Foundation’s work – they maintain that the positioning of health centres is driven by need, not political calculations<sup>55</sup> - employees of the directorate of health and social services stressed three mechanisms by which it was confined to the “Sunni sphere”. First, the health ministry had to accredit new health centres.<sup>56</sup> Before Hariri’s return to the post of prime minister in October 2000, Karam Karam was health minister and not affiliated with any politicians. Until Hariri stepped down in October 2004, Sulaiman Franjiyya headed the health ministry. He is from a family of zu’ama, a former militia leader, and an ally of Syria. Hariri employees also stressed that the Hariri Foundation seeks acceptance by local politicians, such as the leader of the local council, the ra’is baladiya.<sup>57</sup> Finally, there was always the potential that health centres would become the target for anti-Hariri protests, a possibility realised during the time of great political tension after Hariri’s death.<sup>58</sup>

The health centres provided ample patronage resources for Hariri.<sup>59</sup> The Hariri Foundation provided an unknown number of jobs. The foundation stresses that it advertises its positions and that all staff are tested for their skills. Some physicians are permanently employed by the Hariri Foundation, others are from outside. Another patronage resource is healthcare provision itself. Circumstantial evidence suggests, that the Hariri Foundation’s patients are predominantly Sunni Muslims with low incomes. Almost all Hariri Foundation health centres are located in predominantly

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<sup>55</sup> Hariri Foundation staff stressed the use of modern assessment methods – rather than political patronage – to determine the location. Before opening a centre, the directorate for health and social services sent out teams of researchers for a “rapid participatory assessment”, which involved spending time in the community and assessing needs. Before a centre is opened, the foundation sent a mobile clinic to operate in the area and check demand. The employees claimed that the choice of location was then based on the greatest need and hence many were opened in ‘Akkar, Lebanon’s most deprived region. Interview with Suha al-‘Akkar, Beirut, 29<sup>th</sup> January 2008. Interview with Rania Za’tari al-Kush, Beirut, 22<sup>nd</sup> January 2008.

<sup>56</sup> Interview with Rania Za’tari al-Kush, Beirut, 22<sup>nd</sup> January 2008.

<sup>57</sup> Interview with Suha al-‘Akkar, Beirut, 29<sup>th</sup> January 2008.

<sup>58</sup> Suha ‘Akkar related the story of an attack by partisans of 8 March on a Hariri Foundation health centre in Bashura at the start of a sit-in in December 2006. Interview with Suha al-‘Akkar, Beirut, 29<sup>th</sup> January 2008.

<sup>59</sup> Unless indicated otherwise, the information contained in the following two paragraphs is from two interviews with Hariri Foundation representatives: Interview with Suha al-‘Akkar, Beirut, 29<sup>th</sup> January 2008. Interview with Suha al-‘Akkar, Beirut, 29<sup>th</sup> January 2008.

Sunni areas. According to figures of early 2008, 74.3% of patients had no medical insurance, compared to about 50% in Lebanon as a whole.<sup>60</sup> The medical centres provide a high level of care at low cost to the patient. Medication, for instance, is imported from France, packaged with the Hariri Foundation logo, and given out at between 20% and 30% of the normal market price. Yet while the Hariri Foundation provides low-cost care, it also subscribes to the neoliberal tenet that healthcare should not be provided for free in order for patients to assume responsibility for their own health. In summary, the Hariri Foundation caters for Sunni Muslims left behind by the failings of the Lebanese health system: those without medical insurance who have difficulties paying for the high cost of medicine, which is controlled by a cartel of importers.<sup>61</sup> In short, the Hariri Foundation health centres alleviate the social effects of post-war economic policies: poverty and deprivation, the insufficient provision of health services by the state, and the monopolistic control of the market for pharmaceutical products.

The Hariri Foundation is also employing novel ways of interacting with its clientele. While associations such as the Maqasid relied primarily on networks within Beirut's quarters, the Hariri Foundation is also making use of advances in information technology. Every patient receives a medical card to enable the Hariri Foundation health centres to easily access a wide range of information on a person's history and demographics. The health centres collect monthly statistics, which are the basis for further intervention in the community. In the foundation's social department, which is integrated with the health services, a social worker assesses the needs of an individual and opens a file on the person if she or he requires further help. The health centres and social workers also visit Hariri Foundation schools, providing medical and dental checks for students, and giving lessons on health awareness. Just like Maqasid had been a new stage in provision of patronage by a "modern bureaucracy" (Schatkowski, 1969), the Hariri Foundation is using technology and administrative procedures to build up relations with its confessional clientele. Just like Maqasid provided a sense of

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<sup>60</sup> The figure was quoted by Nur al-Din al-Kush, general manager, directorate of health and social services, Hariri Foundation, at a presentation at the American University Beirut on 6<sup>th</sup> February 2008.

<sup>61</sup> For information on the importers' cartel, see Consumer Lebanon (2005).

particularly Beirut Sunni community, the Hariri Foundation “imagines” a community cared for by the billionaire – except that it includes not only Beirut but Sunni communities across Lebanon. Working within the logic of the Lebanese confessional system, the Hariri Foundation was prevented from expanding significantly beyond the Sunni community.

#### 5.4. Did neoliberalism help or hinder the reproduction of Lebanese sectarianism?

For much of the 1990s Hariri did not pay much attention to social issues, leaving the field open to associations such as the Maqasid and to “service ministries” run by former militia leaders. From 1996 onwards and particularly after 1998, when Lahud was president, Hariri came under increasing pressure from the Syrian regime and its allies in Lebanon. Hariri decided to style himself as a specifically Sunni leader in order to win elections. He did so by providing philanthropy, namely health and education services in predominantly Sunni areas. In Beirut, Hariri neutralised the Maqasid as a political rival on the “Sunni scene”, a move which reflected the subordination of the political representatives of the city’s pre-war bourgeois Sunni families by a member of the new contracting bourgeoisie. The Hariri Foundation sought to alleviate the very social ills that the neoliberalisation of the Lebanese economy had produced, namely poverty and deprivation and the uneven access to health and education services.

This leaves the question why Hariri provided services primarily to his own Sunni community. Hariri used philanthropy as the means to convert his economic power into symbolic power – the power of group making (Bourdieu, 1991 p. 170). Rather than challenging the “culture of sectarianism” he worked to become a specifically “Sunni leader”. Just as he had procured the expertise of economic and physical reconstruction from international financial institutions, he poached experts in the mobilisation of Lebanon’s Sunni community from Beirut’s Maqasid association. Hariri may not have entered Lebanese politics with a sectarian agenda but he certainly embraced

sectarianism in the 1990s. When asked whether Hariri was becoming more “political” after 1998, Hariri’s long-time business partner and friend Robert Debbas explained the situation thus:

“Yes, there was a break in 98. First, he didn’t have lots of experience in the Lebanese politics in 92 [when he assumed office as prime minister]. And he gained it in the first few years but he was a hard worker. But in 1998 he was dropped [from the position as prime minister] because his backing was not strong enough. So between 98 and 2000 – and he worked on his Sunni base [...] That brought him back into power in 2000. But that didn’t please the other religions from the communities. But in fact the Syrians never allowed him to reach out for the other communities [...] And he was disappointed by the Christians who let him down, politically, thinking that he was not working for them. And he thought: ‘Well, in Lebanon. I have to be strong in my community before reaching out for the others.’ That made a... that was not a basic character trait. But that was the only route to reach political elections. You have to build a base. And he worked on his base.”<sup>62</sup>

Tammam Salam made a similar assessment when asked whether Hariri was simply unable to expand his services beyond the Sunni community:

“True. Because the Shi’i have their own works. The Christian have their own works. It’s like this in Lebanon. Unfortunately. Hariri, when he came to Lebanon he wasn’t like this. He came with a broad view of everything. But eventually he was drained into the Lebanese measures and dimensions. Which are purely confessional, tribally confessional.”

Sectarian mobilisation also opens up a contradiction: the architect of the neoliberal policies, which had led to the concentration of wealth in the first place, was the “representative” of the poor sections of the Sunni community. Sa’ib Salam had faced these contradictions when popular Nasserite movements had challenged his claim to be representing “Sunni Beirut” in the 1960s and 1970s. These contradictions can be overcome more easily during times of heightened sectarian mobilisation. Such a phase occurred after Hariri’s death, when his son assumed the mantle of a “Sunni leader” and used sectarian mobilisation against the Shi’i Hizbullah and Amal to bolster his claim. It was the logic of the confessional state that made Hariri style himself as a “Sunni” leader, rather than the businessman-politician’s inherently sectarian mindset.

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<sup>62</sup> Interview with Robert Debbas, Beirut, 27<sup>th</sup> February 2008.

Did Hariri's neoliberalism help or hinder the reproduction of the culture of sectarianism? Hariri Foundation philanthropy in the late 1990s represented a variant of "neoliberal populism" (Weyland, 1999), the creation of a popular support base for a neoliberal leader. This is not the whole story, however. As discussed in chapters 3 and 6, the Hariri technocrats were largely hired according to criteria other than sectarian identity. This combination of elite universalism and popular sectarianism was due to Hariri's desire to make neoliberal capitalism work smoothly – hence meritocratic recruitment at the top – while also building up popular support – which was easier to achieve through sectarian populism that defied class-based mobilisation against neoliberalism.

## 6. Return to political crisis and assassination 2000-2005

The onset of political crisis in Lebanon is often dated to Hariri's assassination in 2005. However, the concord within Lebanon's elite cartel over issues such as "resistance" to Israel, the Syrian presence, and neoliberal reconstruction broke down gradually between 2000 and 2005. The breakdown was driven by a deteriorating regional situation but also coincided with a second neoliberalisation drive by Rafiq Hariri and his technocrats. Hariri's position and compromise with rival elites – especially former militia leaders and the military and intelligence establishment – depended on Saudi-Syrian concord, which was itself based on US-Syrian rapprochement in the late 1980s. This started falling apart when the Syrian-Israeli peace process collapsed in 2000 and when the Bush administration pursued its neo-conservative project to remake the Middle East, which culminated in the US-led invasion of Iraq in 2003. The rising US pressure on Syria provides the background to Hariri's assassination on 14 February 2005, which led to a large coalition pushing for Syrian withdrawal. The crisis allows for an exploration of the relationship between US imperial strategy and neoliberalism.

The United States uses its "structural power" – the power to shape and determine the structures of the global political economy (Soederbergh, 2004 p. 8) – to allow its capitalist class to create and appropriate rent on a global scale. By manipulating the rules by which the "capitalist logic" of international power plays out, the US pursue a "territorial logic" of power, the accumulation of power by the territorial state (Harvey, 2003 p. 27). American finance benefited from financial globalisation and the subsequent financial crises engulfing developing countries (Wade, 2000; Stiglitz, 2002). Financial crises therefore became focal points for the application of US power through neoliberalism. Lebanon avoided financial crisis in 2002, when an international donor conference provided soft loans that helped lighten the debt burden. Was this an incident at which the United States used neoliberalism to project power into Lebanon? US finance was not directly invested in Lebanese government debt. Instead, Lebanon's new contractors and Gulf investors were holding the bulk of the debt, mediating between the Lebanese economy and global finance. When it came to Lebanese

finance, American interest was not determined by the needs of Wall Street but by the desire to push the Lebanese government to confront Hizballah. In this case, the US government was not motivated by the interests of its capitalist class but the desire to confront a military foe. When Rafiq Hariri sought international support in avoiding financial crisis in Lebanon, the administration of President George Bush remained obstructive. Instead, France and Saudi acted as “white knights”, investors who come riding to the rescue when other lenders are unwilling to provide support. This, in turn, needs to be understood with reference to Hariri’s close alliance with Saudi Arabia, and his close relationship with French President Jacques Chirac.

This chapter also returns to some of the themes from earlier chapters: Hariri embarked on a second neoliberalisation drive 2000 to 2005. This was not simply a technical fix to make the economy more efficient or the country more competitive. Rather, Hariri salvaged rent-creation mechanisms that benefited new contractors such as himself: government debt-management and reconstruction. Furthermore, he sought to create new investment opportunities through privatisation of state-controlled enterprises. Hariri attacked the rent-creation mechanisms benefiting rival elites: “service ministries” and state-controlled enterprises which were used as patronage instruments by former militia leaders. He also sought to cut military expenditure, a move which would have hurt the military and intelligence establishment. The policies of the second neoliberalisation drive were developed and implemented by a second generation of Hariri technocrats. The comparison with the “first generation” provides an insight into the politicisation of technical expertise. The first section of the chapter looks at the US-Syrian rift and its effect on Lebanese politics. The second section examines Hariri’s renewed neoliberalisation drive and his second generation of Hariri technocrats. The third section provides the political background to Hariri’s assassination.

## 6.1. The US-Syrian rift and its effect on Lebanese politics

### 6.1.1. The US-Syrian rift as a result of a shift in US hegemonic strategy

A shift in US hegemonic practice after 2000 created a rift between Washington and Damascus, which in turn created rising tension within Lebanon's confessional elite cartel. As discussed in chapter 2, Ta'if had represented a US-Syrian accord brokered by Saudi Arabia. Damascus was allowed to marginalise all opposition to its dominance in Lebanon. In return, Syria re-oriented its policy towards the US: it joined the anti-Saddam coalition of 1991 and engaged in a peace process with Israel. The Clinton administration from 1993 to 2000 tolerated Syria's support for Hizballah in Lebanon, assuming that a successful conclusion of the peace process would curtail this link and "domesticate" Hizballah. However, in March 2000 the Syrian-Israeli track collapsed and blame has variously been heaped on Syria, Israel and the US mediators (Ross, 2004 pp. 551-588; Ben-Ami, 2006 pp. 242-245; Rabinovich, 1999 pp. 235-254; Seale, 2000). The strategic importance of the Golan Heights and fundamentally different visions of peace were the underlying causes of the failure. The US-Syrian relationship did not break down immediately in 2000 but relations deteriorated over the next five years leading up to the Hariri assassination.

In May 2000 Israel unilaterally withdrew its troops from South Lebanon, bolstering the standing of Hizballah as the only Arab force to have brought about an Israeli withdrawal from occupied land by force of arms. The failure of the Israeli-Palestinian track in July resulted in the outbreak of the second Palestinian "intifada" in September. In June Hafiz al-Assad had passed away and was succeeded by his son Bashar who left Syrian foreign policy orientation essentially unchanged. Yet Assad also tolerated the intensification of conflict between Hizballah and Israel, which entered a particularly intensive phase between April 2001 and April 2002. While the Jewish state had withdrawn all its troops from South Lebanon, it held on to a small strip of land referred to as the Shib'a farms, which it considered to be originally Syrian rather than Lebanese. Hizballah used the continued occupation of the small area to legitimise rocket attacks

on the Shib'a farms area. The increasing violence of the intifada moved the Shi'i militia to escalate its attacks. Assad combined a posture of conflict with the readiness for compromise towards the US and Israel.

The decisive change that created the US-Syrian rift was a shift in America's hegemonic strategy from "neoliberalism", which relied on institutionalising economic arrangements that would privilege US capital, to a "new imperialism", which was more directly militaristic (Harvey, 2003 p. 27). The two strategies of domination had always co-existed in US strategy, coupling economic dominance of the country's capitalist class with the threat of military intervention. However, the Iraq war of 2003 represented a decisive shift of emphasis towards the latter. The Middle East stood at the centre of this shift and its political systems were to be remade to foster liberal democracies willing to make peace with Israel. This stands in contrast to the emphasis on economic dominance during the previous administration of Bill Clinton 1993-2001. Clinton sought to institutionalise neoliberal globalisation, using the United States' "structural power" to rewrite global rules and institutions such as the IMF and the World Trade Organisation (WTO) (Gill, 2003 p. 154). Debt crises in Latin America and Asia were manipulated by what has been described as the "Wall Street-IMF-Treasury complex" to benefit US finance (Soederbergh, 2004; Stiglitz, 2002; Wade, 2000). Although neoconservatives were already pressing Clinton for regime change in Iraq, the US president focused on the Arab-Israeli peace process instead. All this changed after the accession of George Bush to the presidency and the 11<sup>th</sup> September 2001 attacks, which provided the impetus for the "war on terror". America's neoconservatives used the attacks to promote their project of remaking the Middle East, which revolved around "preventive war" and "regime change" in Iraq. The 11<sup>th</sup> September attacks were decisive for the realisation of the plans of "neoconservative" strategists but these ideas had been developed over many years, if not decades (Hudson, 2004 p. 299).

Marxist explanations of Bush's "new imperialism" focus on control of the "global oil spigot" in defence of US economic supremacy (Harvey, 2003 p. 19) or the takeover of

key institutions by a narrow faction of capitalists in the oil and arms industries compared to Clinton's alliance with finance (Raymond Hinnebusch, 2006 pp. 294-295). Furthermore, the 11<sup>th</sup> September attacks allowed neo-conservative strategists to tap into fears of a clash of civilisations and of an anarchic world to legitimise counter-attacks on a "barbaric" enemy (Kaplan, 1994; Huntington, 1993). Images of a cabal of neocons hogging the top positions in the US government may be misplaced, but they presented the most coherent intellectual response to the 11<sup>th</sup> of September attacks during a period of strategic reorientation and deeply-felt insecurity in America (Freedman, 2008 pp. 373-422). An American "liberal empire" was proposed to order an anarchic world and make it safe for democracy and free market capitalism (Ferguson, 2005). Finally, the "Israel lobby" pushed the agenda for remaking the Middle East to guarantee Israel's well-being.<sup>1</sup> The choice of Iraq as a target therefore needs to be understood as a combination of structural economic factors and the specific threat construction of the United States. The parallels to the onset of the "second Cold War" in 1979 are striking: a perceived decline in US military superiority, a "right wing offensive" of nationalist forces, capitalist crisis, and – importantly – a sense of threat emanating from the "third world" in general and the Middle East in particular (Halliday, 1986). In both 1983 and 2003, US administrations were seeking confrontation with Syria where grudging accommodation had previously been the norm. While Reagan considered Syria a client of the "evil empire", the Bush administration implicitly included Syria in the "axis of evil". The tension between the two countries is primarily, but not exclusively, due to American rather than Syrian actions. There were domestic and regional developments which might provoke a more confrontational stance by Syria: the spectre of becoming a net oil-importer, presidential succession in 2000, and the breakdown of the peace process. However, there was no fundamental shift in the Syrian attitude towards the United States and its goals in the Middle East: Syria remained committed to peace with Israel as a "strategic option", and its alliances with Iran and rejectionist organisations had previously been tolerated by the US as a temporary inconvenience that could be resolved. The neoconservative design to remake the Middle East put the Ba'th regime under

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<sup>1</sup> The argument was made most forcefully by Walt and Mearsheimer (2006, pp. 230-277) but they overstate the influence of this lobby as the singular factor shaping US Middle East policy while underestimating other factors such as oil or class interest.

increasing pressure. The Syrian regime increasingly sought to assert control in Lebanon by strengthening its closest allies – mainly former militia leaders and the military and intelligence establishment. The regime therefore sought to curtail Hariri's power and influence. The businessman-politician was increasingly perceived to be a threat because of his private wealth, his alliance with Saudi Arabia, and his strong relations with an increasingly hostile France and the US.

After 11<sup>th</sup> September 2001, Syria initially proved cooperative with American requests for intelligence sharing on al-Qa'ida and was not included in Bush's original "axis of evil" speech in January 2002. However, Syria's continued support for rejectionist organisations such as Hizballah and Hamas created tension. In June 2002 Bush warned that Syria "must choose the right side in the war on terrorism by closing terrorist camps and expelling terrorist organisations" (International Crisis Group, 2004 p. 9). The Syrian regime opposed the US invasion of Iraq and backed Saddam Hussain.<sup>2</sup> They did so for economic reasons,<sup>3</sup> and in rejection of the principle of US-imposed "regime change" in Arab countries. After the start of the invasion of Iraq in March 2003, tension rose further: While Bashar al-Assad expressed his confidence in popular resistance to the US occupation, the Bush administration started accusing Syria of channelling fighters into Iraq (International Crisis Group, 2004 p. 4). The most tangible effort at pressuring Syria came from Congress. In spring 2002, the Syria Accountability and Lebanese Sovereignty Act (SALSA) was proposed by US legislators and strongly supported by pro-Israeli lobby group AIPAC. It threatened sanctions against Syria if it did not withdraw from Lebanon, give up its programme of weapons of mass destruction, and stop supporting terrorism. The Bush administration was opposed to the legislation because it did not want to jeopardise intelligence cooperation with Syria and wanted to keep the spotlight on Iraq (Mearsheimer and Walt, 2006 p. 274). The bill was eventually passed in October 2003 and signed in December.

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<sup>2</sup> Despite Syria's fundamental opposition to the invasion, it still tried to appear reconciliatory by giving the US occasional support at the UN. In November 2002, Syria voted in favour of UN Security Council Resolution 1441, which called on Iraq to allow weapons inspectors back in.

<sup>3</sup> The two Ba'thist regimes had been regional rivals but from 1997 there was a rapprochement based on mutual economic benefit: From November 2000 onwards, Syrian pipelines were carrying 150,000 to 200,000 barrels of Iraqi crude oil daily. While Iraq could thus sidestep UN "oil-for-food" sanctions, Syria pocketed an estimated US\$1 billion annually (International Crisis Group, 2004 p. 16).

The shift in US policy also affected intra-Arab relations. The US-led invasion of Iraq caused fear in Damascus and suspicion of the intentions of other Arab states. Saudi Arabia's reaction to the invasion was "confused" (Madawi al-Rasheed, 2006 p. 153): outward opposition was coupled with tacit approval and support, which could not have gone unnoticed in Damascus. Jordan's King 'Abdallah similarly counselled the US against war but ended up giving covert and tacit support (Quilliam, 2006 p. 143). Bashar al-Assad condemned Arab cooperation with the US agenda for regime change in no uncertain terms, saying that:

"The logical thing to do would be to implement the Arab Defence Agreement. According to this agreement, if an Arab country is invaded, other Arab countries should defend it. But rather than implementing this agreement, some facilitated the aggression." (International Crisis Group, 2004 p. 17)

Assad's suspicion appears well-founded: Former CIA analyst Flynt Leverett reports that Saudi and Jordanian officials had provided negative briefings about Bashar al-Assad to US officials, giving the impression that the Syrian president's proximity to Hizballah was due to ideological attachment to pan-Arab and pan-Islamic causes rather than a "card" in the peace process that could be negotiated away (Leverett, 2005 pp. 113, 262 FN42).

What is noteworthy for our purposes is that the issue of Lebanese "sovereignty" played only a minor role in the gestation of the US-Syrian rift. Some neoconservatives had identified Lebanon early on during the Bush presidency as a pressure point against Syria, but did not yet call for regime change (Pipes and Abdelnour, 2000; Leverett, 2005 p. 144). Even as late as February 2004, US officials interviewed by the International Crisis Group gave the restoration of Lebanese "sovereignty" a low priority in a list of demands from Syria, with Iraq and the Arab-Israeli conflict much higher up the list (International Crisis Group, 2004 p. 14). In short, there are no indications that the US rift with Syria was motivated by an inherent sympathy for the cause of Lebanese "sovereignty". This cause had a purely instrumental character for the Bush administration. Regarding the Syrian side of the rift, US pressure led Damascus to tighten its control over Lebanon, rather than loosen it. As discussed in the

next section, this included curtailing the powers of Saudi-ally Rafiq Hariri, including his renewed drive for neoliberalisation of the economy, which threatened the interests of Syria's closest allies.

#### 6.1.2. Lebanese politics 2000-2004: Rising opposition and Syrian reassertion

The Ba'thist regime sought to reassert control over Lebanese politics. This was a reaction to rising US pressure but also the revival of those Lebanese political forces which opposed Syrian dominance and which had been marginalised at the end of the civil war. The latter trend was a result of the Israeli withdrawal in May 2000, which increased the pressure on Syria to also take its troops out of Lebanon. Due to the US-Syrian and subsequent Saudi-Syrian rift, Damascus sought to curtail the power of Rafiq Hariri, who had assumed the post of prime minister again in November 2000. Hariri was seen as a possible threat because of his close association with Saudi Arabia and the possibility that he might switch to support the opposition that demanded Syrian withdrawal. The Assad regime therefore promoted the interests of President Lahud and Speaker Birri over Hariri's agenda, and it favoured Hizballah's ability to "resist" over Hariri's "reconstruction". The casualty of this power struggle was the expansion of Hariri's neoliberal project in both its economic and political dimensions.

The Israeli withdrawal in 2000 revived the opposition to Syrian dominance in Lebanon, a trend which occurred along sectarian lines. Opposition was strongest among Christian political forces. In the 1990s, the most prominent Christian leaders had been excluded from post-war politics because of their opposition to Syrian dominance, especially Michel 'Awn, Amin Gemayel, and Samir Geagea. Within his community, Lahud was seen as a Syrian client rather than an effective defender of Christian interests. This exclusion resulted in a sense of "Christian frustration", which translated into an increasingly vocal opposition to the Syrian presence after the Israeli withdrawal. From September 2000 onwards, the Maronite Patriarch Nasrallah Butrus

Sfair called on Syrian troops to leave Lebanon.<sup>4</sup> A coalition of Christian politicians came together in the Qurnat Shahwan meeting in April 2001.<sup>5</sup> While they asserted that Israel was the biggest threat to Lebanon, they called for a Syrian withdrawal and a return of the army to South Lebanon, a move that would have curtailed Hizballah's room for manoeuvre.<sup>6</sup> The patriarch supported their demands. Opposition to Syrian dominance broadened beyond the Christian community when Druze leader Walid Junblat also spoke out in favour of a "reassessment" of relations with Syria in the autumn of 2000 and "minimal parity in Lebanese-Syrian relations" in March 2001.<sup>7</sup> Junblat only returned to the Syrian fold in May 2002, after a reconciliatory meeting with Vice-President 'Abd al-Halim Khaddam.<sup>8</sup> Non-sectarian forces such as the leftist journalist and academic Samir Qassir also started criticising Syrian meddling but this did not change the fact that the fault-line of opposition or support for the Syrian position ran along sectarian lines. The biggest Shi'i movements continued to support Syria's presence in Lebanon: Hizballah benefited from Syria's support for its "resistance" strategy, while Amal's Nabih Birri relied on Damascus to ensure his influence in the "troika" and to contain his intra-communal rivals. Leading Sunni political and religious figures also remained loyal to Syria. Rafiq Hariri maintained that Syria's presence was vital to maintaining peace among Lebanon's confessional groups, while some Sunni religious figures attacked the Maronite patriarch's critical stance vis-à-vis Damascus.<sup>9</sup> The likely success of anti-Syrian opposition should not be exaggerated. Lebanon's sectarian divisions prevented a truly "national" opposition. In June 2000, Lebanon's leading politicians flocked to Damascus to pledge allegiance to Bashar al-Assad at the funeral of Hafiz al-Assad.<sup>10</sup>

The Syrian regime responded to the opposition challenge with a mixture of repression and symbolic concessions. The Lebanese security apparatus was strengthened to

<sup>4</sup> *MEI*, 13<sup>th</sup> October 2000, p. 15. *MEI*, 20<sup>th</sup> April 2001, p. 13. *MEI*, 14<sup>th</sup> September 2001, p. 15.

<sup>5</sup> The gathering included Amin Gemayel, deputies such as Nassib Lahud, and the editor of the al-Nahar newspaper Jibran Tuwayni.

<sup>6</sup> *MEI*, 15<sup>th</sup> June 2001, p. 10-12.

<sup>7</sup> EIU, *Country Report: Lebanon*, January 2001 (electronic version). EIU, *Country Report: Lebanon*, April 2001 (electronic version).

<sup>8</sup> EIU, *Country Report: Lebanon*, July 2002 (electronic version).

<sup>9</sup> EIU, *Country Report: Lebanon*, April 2001 (electronic version).

<sup>10</sup> *MEI*, 30<sup>th</sup> June 2000, p. 9.

confront Syria's opponents. This apparatus was directed by two individuals in particular: Lahud ally Jamil al-Sayyid was promoted to become the head of the General Security directorate, while Syria's military intelligence in Lebanon was headed by Rustum Ghazala from October 2002 onwards. Opposition activists were arrested or intimidated, especially journalists and student activists.<sup>11</sup> In August 2001, the period of legal detention before charge was extended from 24 to 48 hours.<sup>12</sup> In September 2002, Murr TV was closed down for being too critical.<sup>13</sup> Pressure was also exerted to keep LBC in line, the TV station previously associated with the Lebanese Forces.<sup>14</sup> Symbolic concessions included the occasional release of Lebanese detainees, a partial withdrawal of 6,000 Syrian troops from Beirut in June 2001, and in March 2002 the first state visit to Lebanon by a Syrian president since 1975 as a token of respect for Lebanese sovereignty.<sup>15</sup>

Hariri sat on the fence regarding Syria and the Lebanese opposition. On the one hand, he was opposed to beefing up the security services and thus strengthening his rival Emile Lahud. Both Birri and Hariri repeatedly complained that the security services were tapping their phone-calls.<sup>16</sup> On the other hand he was unable or unwilling to openly oppose Syrian-inspired authoritarian measures. Hariri continued to justify the Syrian military and intelligence presence, telling *Le Monde* in February 2001:

“The Syrians are here to help us. And when we no longer need their presence in Lebanon we will ask them to leave. But since the regional situation is what it is today, I think it is more important to think of the means to ensure security, stability and development in our country instead of having trouble with our brothers, friends and the Arab countries.”<sup>17</sup>

Hariri also expressed hope for an opening in Syria itself, brought about by Bashar al-Assad's accession: “The Syrian President clearly stated in the swearing in speech that he would modernize Syria, that he wanted to open the economy and make it

<sup>11</sup> *MEI*, 22<sup>nd</sup> December 2000, p. 12. *MEI*, 23<sup>rd</sup> March 2001, p. 13. EIU, *Country Report: Lebanon*, October 2001 (electronic version). *MEI*, 7<sup>th</sup> December 2001, p. 20.

<sup>12</sup> EIU, *Country Report: Lebanon*, October 2001 (electronic version).

<sup>13</sup> EIU, *Country Report: Lebanon*, October 2002 (electronic version).

<sup>14</sup> *MEI*, 23<sup>rd</sup> March 2001, p. 13.

<sup>15</sup> *MEI*, 22<sup>nd</sup> December 2000, p. 11. *MEI*, 29<sup>th</sup> June 2001, p. 21. (Leverett, 2005 p. 108)

<sup>16</sup> EIU, *Country Report: Lebanon*, January 2001 (electronic version). *MEI*, 15<sup>th</sup> June 2001, p. 10-12.

<sup>17</sup> Interview with *Le Monde*, 12<sup>th</sup> February 2001, available at <http://www.rhariri.com/news.aspx?ID=65&Category=Interviews>

competitive. He said that the Syrian relations with Lebanon were getting stronger. I think he is implementing what he has declared.”<sup>18</sup>

Hariri’s reaction reveals a lot about his pragmatic attitude to authoritarianism. We have seen that he accepted authoritarian practices as long as they furthered his political or economic agenda, for instance when calling on the army to confront trade union protests in 1996 (see chapter 4). His allegiance was to the kingdom of Saudi Arabia, one of the most repressive regimes of Middle East. Nor was he fundamentally opposed to Syrian authoritarian practices in Lebanon. Hariri had condoned the post-war marginalisation of all anti-Syrian forces. He was criticised by international human rights organisations for his silence on the fate of Lebanese and Palestinians who had “disappeared” and were thought to be detained in Syrian jails.<sup>19</sup> After 2000, Hariri expressed unease with the authoritarian crackdown. He was unable to prevent the detention of journalists critical of the security establishment.<sup>20</sup> Hariri failed to condemn a wave of arrests of anti-Syrian activists of ‘Awn’s Free Patriotic Movement and Samir Geagea’s Lebanese Forces in August 2001, while Hariri was on a visit to Pakistan.<sup>21</sup> In the same month, the Lebanese parliament extended the period of detention from 24 to 48 hours. Hariri’s comments in parliament are revealing:

“No one in the country wants to be prime minister in this climate. Legislation rules prohibit this amendment. But failure to vote [in favour of these measures] will create political problems the country can do without. So we will agree to the amendment even against my conviction.”<sup>22</sup>

Another example is Hariri’s silence on the closing down of Murr TV, a television channel critical of the Syrian presence.<sup>23</sup> Hariri’s stance on the invasion of Iraq betrayed his awkward position vis-à-vis Syria. He mirrored the Saudi tactic of public condemnation coupled with tacit support. In September 2002 Hariri opposed military action:

<sup>18</sup> Interview with *Kyodo news agency*, 31<sup>st</sup> January 2001, available at <http://www.rhariri.com/news.aspx?ID=68&Category=Interviews>.

<sup>19</sup> This is particularly ironic considering that this issue became a rallying cry for the anti-Syrian movement led by Sa’d Hariri after his father’s death. Human Rights Watch, *Syria/Lebanon: An Alliance beyond the Law* (HRW: Washington, 1997), available at <http://www.hrw.org/en/node/24483/section/2>.

<sup>20</sup> *MEI*, 22<sup>nd</sup> December 2000 p. 12.

<sup>21</sup> *MEI*, 31<sup>st</sup> August 2001, p. 11-14.

<sup>22</sup> Quoted in EIU, *Country Report: Lebanon*, October 2001 (electronic version).

<sup>23</sup> EIU, *Country Report: Lebanon*, October 2002 (electronic version).

“We and the rest of the Arab countries are all opposed to an American attack of Iraq [...] because problems are not solved by using force. If Saddam Hussein does not respect UN resolutions, there are many ways to make him to do so—but not by an attack.”<sup>24</sup>

Yet in March 2003, Hariri was reported to have urged Sunni clerics from ‘Akkar and Dinniya to distance themselves from violent anti-American protests against the Iraq invasion.<sup>25</sup>

The issue that determined Hariri’s relations with Damascus most of all was his stance towards Hizballah. The prime minister was coming under increasing pressure from Washington to move against the Shi’i movement. Congress had blocked the disbursement of a US\$50 million financial aid package to Lebanon in May 2001 because of the Lebanese government’s continued support for Hizballah.<sup>26</sup> Hariri rejected a list of US demands to the Lebanese government, put out after the 11<sup>th</sup> September attacks: disarming Hizballah, extraditing individuals wanted in the US for their role in attacks on US interests in Lebanon in the 1980s – including Hizballah operative ‘Imad Mughniyya – and freezing Hizballah assets in Lebanese banks.<sup>27</sup> Hariri asserted the continued legitimacy of Hizballah efforts to recover the Shib’a Farms, referring to Hizballah as “the resistance”.<sup>28</sup> He also rejected the deployment of Lebanese troops in Southern Lebanon prior to an Israeli withdrawal from the Shib’a Farms.<sup>29</sup> Hariri maintained that the terror suspects were not in Lebanon.<sup>30</sup> He also used his influence with French President Jacques Chirac to keep Hizballah off an official

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<sup>24</sup> Interview with Radio France International, 9<sup>th</sup> September 2002, available at <http://www.rhariri.com/news.aspx?ID=726&Category=Interviews> viewed on 27<sup>th</sup> January 2010.

<sup>25</sup> EIU, *Country Report: Lebanon*, July 2003 (electronic version).

<sup>26</sup> *Financial Times*, 18<sup>th</sup> May 2001, p. 9.

<sup>27</sup> EIU, *Country Report: Lebanon*, January 2002 (electronic version). Hariri interview with *al-Sharq al-Awsat*, 14<sup>th</sup> October 2001, available at <http://www.rhariri.com/news.aspx?ID=469&Category=Interviews>, viewed on 27<sup>th</sup> January 2010.

<sup>28</sup> For instance in an interview with *Al Nahar*, 3<sup>rd</sup> January 2002, available at <http://www.rhariri.com/news.aspx?ID=294&Category=Interviews>, viewed on 27<sup>th</sup> January 2010.

<sup>29</sup> Interview with *Le Monde*, 12<sup>th</sup> February 2001, available at <http://www.rhariri.com/news.aspx?ID=65&Category=Interviews>.

<sup>30</sup> Interview with *al-Sharq al-Awsat*, 14<sup>th</sup> October 2001, <http://www.rhariri.com/news.aspx?ID=469&Category=Interviews>, viewed on 27<sup>th</sup> January 2010.

EU list designating terrorist organisations.<sup>31</sup> Furthermore, finance minister Fu'ad Siniora refused to follow US demands to freeze Hizballah's financial assets.<sup>32</sup>

Despite Rafiq Hariri's continued support for Hizballah, he also started displaying public frustration with the militia. The tension between "reconstruction" and "resistance" became particularly intense after the Israeli withdrawal, when the Jewish state and the Shi'i militia were testing each other's limits. On 16<sup>th</sup> February 2001 Hizballah attacked an Israeli patrol on the Shib'a farms – a day after Hariri had promised French President Jacques Chirac that there would be no "provocation" of Israel from the Lebanese side.<sup>33</sup> Hariri met Lahud and Assad and, in an unprecedented step, issued a statement criticising Hizballah and claiming sole authority for the government to regain occupied land.<sup>34</sup> He withdrew the statement after an emergency meeting with Hizballah leader Shaykh Hassan Nasrallah but Hariri's frustration was now plain to see. In the meeting, Hariri reportedly sought to persuade Nasrallah to coordinate his actions with the state. A similar incident occurred in April 2001, when Hariri's *Mustaqbal* newspaper criticised a Hizballah attack in a front-page editorial, asking: "Can Lebanon bear an operation of this kind, with all its political, economic and social consequences? Was it wise to carry out this operation and does its timing suit the overall interest of Lebanon?"<sup>35</sup> Hariri faced Syrian anger and Assad cancelled a meeting with the Lebanese premier. Over the following months, Hariri urged Assad and Iranian President Muhammad Khatami to accord economic policy greater importance than resistance.<sup>36</sup> Relations between Hariri and Hizballah improved after April 2002, once the Shi'i movement reduced its attacks, but the fundamental tension between "resistance" and "reconstruction" persisted.

Rafiq Hariri failed to win over either Damascus or its Lebanese opponents. The opposition complained about Hariri's continued horse-trading within the "troika".<sup>37</sup>

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<sup>31</sup> EIU, *Country Report: Lebanon*, January 2002 (electronic version).

<sup>32</sup> *MEI*, 23<sup>rd</sup> November 2001, p. 17.

<sup>33</sup> *MEI*, 9<sup>th</sup> March 2001, p. 19.

<sup>34</sup> *MEI*, 9<sup>th</sup> March 2001, p. 19.

<sup>35</sup> Quoted in *MEI*, 4<sup>th</sup> May 2001, p. 10-12.

<sup>36</sup> EIU, *Country Report: Lebanon*, July 2001 (electronic version).

<sup>37</sup> *MEI*, 6<sup>th</sup> April 2001, p. 16.

The Damascus regime, meanwhile, was becoming increasingly suspicious of Hariri. As we have seen, Bashar al-Assad's rise to the presidency in the late 1990s had coincided with a curtailment of Hariri's room for manoeuvre, epitomised by the election of Emile Lahud in 1998. For a regime that is highly sensitive to any challenge from Lebanon, Hariri's criticism of Hizballah must have represented a significant provocation. Another irritation was Hariri's invitation to Michel 'Awn to return to Lebanon in 2001.<sup>38</sup> The general was residing in French exile and his followers represented the most vocal opposition to Damascus' policies in Lebanon. Hariri's alliance with Saudi Arabia and its lukewarm opposition and tacit acceptance of the invasion of Iraq also marked the prime minister out as a possible threat. Bashar al-Assad's policy was to curtail Hariri's power in Lebanon by supporting rival leaders, particularly President Lahud and Speaker Nabih Birri. In one newspaper interview, Bashar al-Assad subtly suggested that he saw President Lahud at the top of the pyramid within the troika:

“We, in Syria, like everyone else in the world, believe in the hierarchy of the state and it is only natural that the President of the republic is the head of this hierarchy. The head of the hierarchy does not represent only the political or the economic aspects but all aspects. As a result all aspects of the Lebanese society culminate with the President of the republic.”<sup>39</sup>

Syrian support for Lebanese President Lahud resulted in the strengthening of the security agencies, controlled by Lahud-ally Jamil al-Sayyid. Speaker Nabih Birri was also bolstered vis-à-vis Hariri, most notably in a cabinet reshuffle of April 2003. Hariri was forced to drop key allies, while Birri and other close Syrian supporters were bolstered.<sup>40</sup> By the latter half of 2003, Lahud was indicating his desire for an extension of his presidential term, while Hariri was betting on an alternative president more open to his economic agenda. It was this dispute about presidential succession which was to dominate the year 2004.<sup>41</sup>

Hariri was also affected by internal Syrian politics. Rising US pressure affected dynamics within the regime. Alan George divides Syrian regime personnel into three

<sup>38</sup> *MEIB*, July 2001, available at: [http://www.meib.org/articles/0107\\_Id1.htm](http://www.meib.org/articles/0107_Id1.htm).

<sup>39</sup> Interview published in *al-Sharq al-Awsat*, 8<sup>th</sup> February 2001, available in the official Syrian translation at: <http://www.al-bab.com/arab/countries/syria/bashar0102b.htm>, viewed on 21<sup>st</sup> June 2010.

<sup>40</sup> EIU, *Country Report: Lebanon*, July 2003 (electronic version).

<sup>41</sup> EIU, *Country Report: Lebanon*, July 2003 (electronic version).

categories: old hardliners such as 'Abd al-Halim Khaddam or Mustafa Tlas, young hardliners such as Bashar's brother in law and deputy head of military intelligence Asaf Shawkat, and technocratic "modernisers" assembled by the young president himself (George, 2003 p. 161). The "old guard" was increasingly being sidelined. This affected Hariri's ability to maintain Damascus' sympathy, because his link to the regime ran through individuals such as Khaddam. Periods of international pressure strengthened the young hardliners. The "modernisers" postponed any meaningful reform, accepting the primacy of regime survival. The reshuffling of regime personnel had started even before Hafiz al-Assad's death and in preparation for Bashar's accession. As a result, regime figures allied to Hariri were weakened. Three figures in particular lost the ability to influence Lebanese affairs, curtailing Hariri's ability for sympathetic Syrian policies: 'Abd al-Halim Khaddam, Hikmat Shihabi, and Ghazi Kan'an. Vice president 'Abd al-Halim Khaddam had been in charge of the "Lebanon file" since at least the early 1980s. He was a Sunni Muslim from Banyas who had become a close confidante of Hafiz al-Assad during their days as Ba'th party youth activists. Hariri had cooperated closely with Khaddam since the early 1980s, for instance on the "militia agreement" of 1985. Another Syrian "friend" of Hariri's was Chief of Staff Hikmat Shihabi. The Sunni Muslim from Aleppo was close to Hafiz al-Assad. Druze leader Walid Junblat also maintained close relations with Shihabi.<sup>42</sup> Both Shihabi and Khaddam were extremely close to, and trusted by, Hafiz al-Assad and were members of the six-man committee charged with running affairs of state after Assad's heart attack in 1983. There were recurring rumours that Hariri gave Khaddam and Shihabi a cut of lucrative contracts in post-war Lebanon, most notably in the mobile phone sector.<sup>43</sup> A third individual with ties to Hariri was the 'Alawi officer Ghazi Kan'an. He had been chief of Syrian military intelligence in Lebanon since 1982 and behaved like Assad's viceroy in the country, receiving Lebanese politicians in his base at the border town of 'Anjar in the Biqa' valley. Khaddam, Shihabi and Kan'an played important roles in policy-making in Damascus and were therefore attractive allies to cultivate for Hariri. Hafiz al-Assad had tended to set the broad strategic outlines of policy, leaving his lieutenants to formulate the details. This had given Khaddam, Shihabi, and Kan'an great scope for

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<sup>42</sup> *MEI*, 16<sup>th</sup> June 2000, p. 7.

<sup>43</sup> For an example of these rumours, see: *MEIB*, January 2003, available at: [http://www.meib.org/articles/0301\\_12.htm](http://www.meib.org/articles/0301_12.htm).

influencing Syria's Lebanon policy. Having cultivated the goodwill of these three individuals was crucial for Hariri in maintaining good relations with Damascus in the 1980s and 1990s.

All three men were marginalised, either in preparation of Bashar al-Assad's succession or afterwards. The "Lebanon file" was transferred from Khaddam to Bashar in 1998. Khaddam was often rumoured to harbour ambitions to succeed Hafiz al-Assad but he actually helped to ensure a smooth takeover by Bashar. In 1998 Shihabi was removed from the post of Chief of Staff, in all likelihood because he opposed Bashar al-Assad's accession (Leverett, 2005 p. 62). In June 2000, when Shihabi was staying in Hariri's mansion in Beirut to recover from medical treatment, news reached him that charges of embezzlement had been brought against him in Syria.<sup>44</sup> He left the country via Beirut airport, with Khaddam and Junblat seeing him off. Although he was allowed to return in July 2000, he remained marginalised. In October 2002, Ghazi Kan'an was promoted to the head of the Political Security Directorate to oversee the crackdown on internal Syrian opposition. In October 2004 he was promoted to the post of minister of interior. While this gave him greater influence within Syria, it ended his role in shaping Syria's Lebanon policy. His position in Lebanon was taken up by Rustum Ghazala, previously the head of Syrian military intelligence in Beirut. Kan'an's departure weakened Hariri, while Ghazala's arrival strengthened Lahud and his security apparatus, which enjoyed good relations with the Syrian official.<sup>45</sup> Hariri's close relationship to Khaddam, Shihabi, and Kan'an had been an indispensable instrument in keeping Damascus' Lebanon policy sympathetic to his own concerns. Their departures weakened his position while Lahud was strengthened.

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<sup>44</sup> *MEI*, 16<sup>th</sup> June 2000, p. 7.

<sup>45</sup> EIU, *Country Report: Lebanon*, January 2003 (electronic version).

## 6.2. “A very political economy”:<sup>46</sup> Hariri’s second neoliberalisation drive

Relations within Lebanon’s confessional elite cartel are not just determined by sect or international politics, but also by economics. Chapter 3 traced the specific patterns of neoliberalism in Lebanon’s post-war economy. It was based on an implicit bargain between Hariri and other members of the confessional elite cartel. As a member of the new contractor bourgeoisie, Hariri created new investment opportunities in finance and reconstruction. He did so by installing allied technocrats in key institutions: the central bank, the finance ministry, and the Council for Development and Reconstruction (CDR). Yet he also had to compromise with rival elites who had emerged from the civil war. Firstly, he had to share neoliberal rents with his rivals, secondly, “service ministries”, which could be used for patronage, were run by former militia leaders. The division corresponded roughly to Bourdieu’s division of the “right hand” and the “left hand” of the state – the economic ministries concerned with finance and the regulation of capitalism, and the “spending ministries” which are concerned with social welfare (Bourdieu, 1998 p. 2). The defence establishment around army commander and later President Emile Lahud also took its share of government expenditure.

These rent-creation mechanisms were unsustainable. Government over-borrowing in particular pushed public finances ever deeper into debt. When Hariri returned as prime minister in 2000, Lebanon was facing financial crisis. Between 2000 and 2004, Hariri embarked on a second round of neoliberalisation, a set of policies designed to open up new investment opportunities previously closed by opposition from former militia leaders and the security establishment. This section of the chapter will therefore look at the way in which rent-creation mechanisms put in place by Hariri – reconstruction and government debt management – were being salvaged. In contrast, Hariri and his technocrats were assaulting rent-creation mechanisms benefiting

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<sup>46</sup> The title of this section is borrowed from Brynen’s (2000) study of international aid to the Palestinians.

primarily the former militia leaders and the military and intelligence establishment. All this occurred before a backdrop of rising tension between Syria and Lebanon's opposition, with Hariri in between. Hariri's neoliberalisation drive from 2000 to 2004 was motivated both by the desire to "rescue" the Lebanese economy and to undercut the economic power of his political rivals, confirming Harvey's observation of the Janus-faced nature of neoliberalism as an economic ideology and a political programme for the restoration of class power (Harvey, 2005 p. 19). Hariri avoided financial collapse in Lebanon by calling on help from international donors, thus completing the country's drift into economic dependence on Hariri's sponsor, the kingdom of Saudi Arabia.

#### 6.2.1. Rent-creation mechanisms that Hariri salvaged

When Rafiq Hariri returned to the post of prime minister in October 2000, Lebanon was facing financial crisis. Although the Hariri team blamed the al-Huss government from 1998 to 2000 for the explosion of debt, the rent-creation mechanisms put in place during Hariri's first term in office from 1992 to 1998 actually contributed a greater share of the burden. The most important cause was government over-borrowing, which stabilised the Lebanese currency but also pushed up debt-servicing cost (see chapter 3). Hariri allies at the head of the central bank and the finance ministry had been responsible for this policy. High government expenditure on reconstruction, "service ministries", and defence further contributed to recurrent deficits. Debt was held by domestic commercial banks and their depositors. The high concentration of deposits suggests that key investors from the new contractor bourgeoisie, which had accumulated their wealth outside Lebanon were controlling the bulk of government debt – including Hariri and his Bank Med. It was this elite which effectively acted as a buffer between the Lebanese government and international financial markets. Much of Hariri's energy over the next few years was consumed by the effort to maintain the confidence of these key investors. The fact that investors and policy-makers were closely networked with each other made this task easier, but Hariri had to keep guaranteeing government debt service and the

convertibility of the Lebanese Pound to US dollars. Hariri was trying to achieve this in a period when other countries were experiencing deep financial crises and trust in “emerging markets” was low. In 2001 and 2002 banks were becoming increasingly reluctant to buy Lebanese pound-denominated treasury bills, leaving the central bank to finance the government deficit. By June 2002 the central bank held a quarter of total T-bills (see appendix 8).<sup>47</sup> Similarly, dollarization as measured by the value of deposits in US dollar as a percentage of the value of total deposits rose from a low of 61.0% in March 2000 to a peak of 74.2% in May 2002.<sup>48</sup> The roll-over of T-bills denominated in Lebanese pounds depended on maintaining a high level of Lebanese pound deposits, with which banks could finance these purchases.

The central bank also faced increasing difficulties selling Eurobonds. The share of such debt denominated in foreign currency rose from 24.3% of total government debt in May 2000 to 40.7% in October 2002, just before the Paris II meeting.<sup>49</sup> Eurobonds tend to carry lower interest rates than treasury bills because investors do not face “currency risk”, the risk of devaluation. Yet should such devaluation happen, the Lebanese government would be saddled with relatively higher debt in Lebanese pound terms. IMF and central bank label Eurobonds as “foreign debt” or “external debt” respectively, although these bonds remain very much domestic because they are held by Lebanese commercial banks and investors. For instance, 75-80% of a Lebanese Eurobond offering in July 2001 was said to have been bought by Lebanese investors, the rest by “sympathetic Gulf investors”.<sup>50</sup> Eurobonds show up in the annual report of the Association of Lebanese Banks (ABL) as “other government bills”. This category also includes “certificates of deposit” from the central bank, of which more below. The value of “other government bills” held by Lebanese commercial banks rose from LL903 billion in 1997 to LL7,894 billion in 2001 (Baz, various years) (see appendix 9). Lebanese commercial banks and their depositors thus remained the main beneficiaries of the

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<sup>47</sup> Data downloaded from the Banque du Liban website, available at: <http://www.bdl.gov.lb/edata/index.asp>

<sup>48</sup> Data downloaded from the Banque du Liban website, available at: <http://www.bdl.gov.lb/edata/index.asp>

<sup>49</sup> Data downloaded from the Banque du Liban website, available at: <http://www.bdl.gov.lb/edata/index.asp>

<sup>50</sup> *Financial Times*, 30<sup>th</sup> July 2001, p. 6.

high interest payments that Lebanese government had to make. However, by the first half of 2002 the central bank had to buy Eurobonds worth US\$1.85 billion which investors did not want to take. It only managed to offload the bonds to unspecified Gulf and South East Asian investors after Hariri had personally lobbied “leading figures” in these regions.<sup>51</sup>

Another worrying development was a decline in transparency. The central bank found several ingenious ways of financing the purchase of treasury bills and of increasing gross foreign exchange reserves while obscuring the cost of borrowing it incurred: Selling “certificates of deposit” to commercial banks at undisclosed interest rates and concealing foreign currency debt held by the central bank by publishing only gross foreign currency reserves (see appendix 10 for a detailed description of these mechanisms). Official interest rates on T-bills lost their function as indicators of financial stress on the system. This is best illustrated by looking at a chart of interest rates on T-bills: From July 1997 onwards, they remained virtually frozen, revealing the highly managed nature of T-bill issues (see appendix 11).

The indicators discussed for dollarization, the central bank’s difficulties in marketing Eurobonds, and falling net foreign exchange reserves show that by early 2002 creditors were considering abandoning the Lebanese pound. As one unnamed Lebanese financier put it in July 2001:

“Wealthy Lebanese already keep some money, their safety savings, in foreign banks ... As long as the perceived risk of government default is low they'll keep the bulk here. You'll know that has changed if and when you see capital flows out of the country. Then the merry-go-round will suddenly stop.”<sup>52</sup>

Hariri’s task was to keep the merry-go-round going. He did so by winning financial and political support from his foreign allies France and Saudi Arabia.

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<sup>51</sup> EIU, *Country Report: Lebanon*, July 2002 (electronic version)

<sup>52</sup> Quoted in *Financial Times*, 30<sup>th</sup> July 2001, p. 6.

Lebanon was by no means unique in facing financial collapse. A wave of financial crises had enveloped developing countries from 1982 onwards, when Mexico indicated its inability to repay its debtors. The most relevant case directly influencing Lebanon in 2002 was the Argentinean default of 2001. The causes of financial crises around the globe need to be related to neoliberal globalisation as a US hegemonic strategy. The mainstream view of financial globalisation – i.e. capital account liberalisation – holds that it emerged spontaneously because it is more efficient (Crockett, 2003). An alternative view identifies financial globalisation itself as the cause of the crisis (Wade, 2000; Harvey, 2005; Duménil and Lévy, 2004a; Gowan, 1999). Financial globalisation is interpreted as a political strategy to create outlets for US capital. This strategy is closely linked to the United States' privileged position in drawing in capital from all over the world thanks to the dollar's role as a global reserve currency and the privilege of seigniorage. Wall Street then becomes the world's banker by re-investing these funds and deriving rent from difference between high returns on investment and low interest rate on US dollar debt instruments. Crises are caused by the ever more rapid in- and outflow of "hot money" in countries whose financial systems have been prised open by pressure from the US Treasury and the IMF:

"For international political economy, the issue is the credit bubble that is rotating around the developed and emerging market countries, blowing out periodically at high cost to people's lives. The bubble is driven by excess world liquidity generated in core countries. With higher excess comes higher volatility of financial flows within and between regions." (Wade, 2000 p. 208)

Crises are manipulated in such a way that debtors – rather than creditors at Wall Street – bear the burden in case of default. In short, financial liberalisation across the globe has been an instrument of US power. It strengthened the power of US finance, and hence the American state. However, the case study of Lebanon shows that this logic of neoliberalism as an imperial project does not determine the outcomes of financial crises everywhere. The Lebanese case does not disconfirm that financial globalisation was an instrument of US power, but American policy alone cannot explain the way in which Lebanon avoided financial crisis in 2002. Significantly, US capital did not have much of a stake in Lebanon. Government debt was held by Lebanon's economic elites rather than Wall Street banks. Lebanon is not a significant export market for the United States. In 2001, only 7.2% of total imports came from the

US, compared to 61.5% from Europe.<sup>53</sup> The relations between US companies and Lebanon were hampered by government restrictions reaching back to the 1980s. Only in 1997 did the Clinton administration lift a travel ban that prevented US citizens from visiting Lebanon and the country was taken off the American list of drug producing countries in 1997.<sup>54</sup> Measures such as the travel ban had hampered the ability of US contractors to participate in the Lebanese reconstruction.

Financial crises can have three possible outcomes. Firstly, a country may manage to obtain unconditional funding and to restore “confidence”, in which case financial crisis is avoided. Secondly, if the country fails to restore confidence it may obtain a conditional bail out, usually from the IMF. Thirdly, it can default and refuse to repay all or part of its debt. The first case is extremely rare, but it is what happened in the Lebanese case. The second case is the most common scenario. Creditors then benefit from IMF pressure on debtors to repay all or most of their debt, even at the cost of economic growth or social development. The third case is very rare, although Argentina in 2001 is a significant exception. In order to understand how Lebanon avoided financial crisis and what Hariri’s agency was, we will look at four relationships of debtor countries that determine which one of the three outcomes occurs: with creditors, the IMF, the US, and “white knights” – a third party that may come to the rescue (see appendix 12).<sup>55</sup> Debtors find it easier to maintain confidence if they face fewer rather than many creditors, and if the creditors are domestic rather than foreign. The IMF is more likely to lend support to restore confidence if a country’s policy conforms to a neoliberal economic logic, especially if the country has a history of long engagement with the IMF, which therefore has a “stake” in the success of a country’s policy and stands to lose credibility if the country defaults. More importantly, the United States can exert pressure on IMF decisions, either for geostrategic reasons

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<sup>53</sup> IMF, *Direction of Trade Statistics*, compiled by Euromonitor International, available at: <http://www.portal.euromonitor.com/Portal/Pages/Statistics/Statistics.aspx>, viewed on 31<sup>st</sup> July 2011.

<sup>54</sup> EIU, *Country Report: Lebanon*, 4<sup>th</sup> Quarter, 1997, p. 14. *New York Times*, 11<sup>th</sup> November 1997, electronic version available at: <http://www.nytimes.com/1997/11/11/world/world-news-briefs-syria-and-lebanon-off-us-drug-list.html?scp=7&sq=drug%20cultivation,%20lebanon&st=cse&pagewanted=print>, viewed on 31<sup>st</sup> July 2011.

<sup>55</sup> These four relationships are derived from a survey of the literature on financial crisis, including: (Cooper and Momani, 2005; Woods, 2006; Harvey, 2005; Stiglitz, 2002; Wade, 2000)

or to protect the interests of US investors. Finally, lenders other than the IMF can provide funds, acting as “white knights”. However, the IMF and the United States seek to fend off any challenges of the Fund’s status as the lender of last resort for troubled economies.<sup>56</sup>

The Lebanese government faced a small number of predominantly domestic creditors: key investors in deposits and the six largest commercial banks. The close network and indeed congruence between depositors and the confessional elite cartel made it easier for Hariri to maintain investor confidence. However, indicators such as dollarization, difficulties in marketing Eurobonds, and falling net foreign exchange reserves suggested that the “merry-go-round” might stop. Hariri sought to reassure investors in an interview in September 2001, accusing his opponents of using the economy to attack him personally:

“The national currency is stable. But its stability is shaken by political tensions. The current exchange rate of the Lebanese Pound reflects reality, but during disputes in the past few days we heard from some media outlets that money is being transferred to outside Lebanon. [...] The report is untrue [...] Politicians must also be attentive to the fact that differences of opinion can occur but the economy should not be used in discord, for example someone who is in conflict with Rafiq Hariri [should not] say the Pound is going to collapse.”<sup>57</sup>

In early 2001, Hariri set out his plans to bolster the currency and tackle the public debt, based on financing through Eurobonds rather than T-bills, raising new taxes such as value added tax (VAT), privatisation, and encouraging economic growth by reducing red-tape and lowering direct taxes.<sup>58</sup> The most important project, however, was to organise an international conference at which foreign donors would provide concessionary loans and thus the cost of debt-servicing. A first conference in Paris in February 2001 had brought together French President Jacques Chirac, European Commission President Romano Prodi, and World Bank President James Wolfensohn

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<sup>56</sup> For instance, suggestions by Japan to establish an Asian Monetary Fund to tackle the regional crisis in 1997-1998 were opposed by the US and the IMF (Stiglitz, 2002 p. 112).

<sup>57</sup> Interview with LBC, 1<sup>st</sup> September 2001, available at <http://www.rhariri.com/news.aspx?ID=145&Category=Interviews>, viewed on 27<sup>th</sup> January 2010.

<sup>58</sup> EIU, *Country Report: Lebanon*, April 2001 (electronic version).

but only resulted in soft loans and grants worth US\$458 million.<sup>59</sup> Hariri suggested that the value of the new loans he was seeking at a second such conference was in the order of US\$5 billion.<sup>60</sup> Much of Hariri's energy was taken up by this project. Paris II, as the conference in November 2002 came to be known, effectively prevented financial crisis in Lebanon.

Hariri sought to obtain IMF endorsement for the Paris II meeting but failed. The Fund sent a representative but did not pledge any money and thus signalled its disapproval for the government's plan. The IMF had no "stake" in the success of Lebanon's peg. In Turkey and Argentina the fund had invested much of its credibility into the currency pegs and had therefore been prepared to prop up the fixed exchange rate regimes even when they were no longer salvageable. The relationship with Lebanon had been much more hands-off, not least because the government had been borrowing primarily from domestic banks rather than international lenders. Mazin Hanna, an official in the prime minister's office who was closely involved in the IMF negotiations, describes the Hariri's relationship with the IMF in these terms:

"Hariri was never interested really with the IMF, except when he felt that he needed the IMF in order to solicit help for Lebanon and funding. When he found that he could not convince them of his argument, he simply decided, 'ok, I'm going to pull a macro-assistance programme without the IMF'."<sup>61</sup>

The IMF's refusal to endorse Paris II was due in part to its recent experience in Argentina.<sup>62</sup> The fund had unsuccessfully propped up the Argentinean dollar peg until late 2001, when the country was finally forced to devalue. The thinking of the IMF directors is expressed in the fund's annual report on Lebanon in October 2001 (IMF, 2001). The report criticised Lebanon's "stubbornly high fiscal deficit" and the US dollar peg, which made the economy less competitive. It also took a negative view of central bank purchases of T-bills. Significantly, however, the IMF directors were split on the merits of exchange rate devaluation (IMF, 2001). Devaluation would have led to

<sup>59</sup> *Financial Times*, 28<sup>th</sup> February 2001, p. 11.

<sup>60</sup> EIU, *Country Report: Lebanon*, July 2002 (electronic version)

<sup>61</sup> Hanna described himself as part of the team that was negotiating with the IMF, led by Minister of Economy and Trade Bassil Fulayhan. Interview with Mazin Hanna, Beirut, 3<sup>rd</sup> March 2008.

<sup>62</sup> According to IMF resident representative in Lebanon, Edward Gardner. He became the head of the IMF mission in Beirut after Paris II but was familiar with IMF thinking at the time of Paris II. Interview with Edward Gardner, Beirut, 25<sup>th</sup> May 2008.

skyrocketing inflation, especially because a large proportion of goods consumed in Lebanon are imported. Furthermore, it would have meant a major loss of wealth by depositors and by banks. The fund directors thus advocated placing the burden of resolving Lebanon's government debt on the (Lebanese) creditors. The IMF could be much bolder in suggesting that local Lebanese creditors take a "haircut" – as the burden-sharing by creditors is called in IMF-speak – than if creditors had been from Wall Street, which exerts great influence on the IMF via its close relations with the US Treasury.

Hariri sought to convince the IMF that his economic policy programme conformed to the logic of neoliberal restructuring. Paris II was thus a major spur for the formal development of a coherent economic policy programme. Prior to his accession to the prime ministership, Hariri remained vague on his economic policy plans. He only said he would replace the "contractionary" policy of the al-Huss government with a "growth-oriented" programme (Hariri, 1999). In late 2000 the Hariri government published a first 10-point plan, which included privatisation, reducing customs barriers, joining the World Trade Organisation (WTO), and an association agreement with the EU.<sup>63</sup> The actual list of policies with which Hariri sought to convince the IMF – and other international donors – to supply funds at Paris II was drawn up at the "Paris I" conference in February 2001. As Hanna describes it:

"And while no serious pledges were done at the time [of Paris I], at least there was an outline being provided at the time by the countries and institutions that will end up putting money into Lebanon. By drawing a [...] roadmap for us, saying that: 'If you wanted this money, this is what you should do.' And this is when, going back, Rafiq Hariri decided: 'OK, we're going to put in a value added tax, we're going to go into the Euromed agreement, we're going to lower customs rates, we're going to prepare for privatisation, etc. etc.' And by the time Paris II occurred, all those prior actions, if you want, were already fulfilled."<sup>64</sup>

"Landmark" policies included the following: The "Open Skies" policy liberalising air traffic at Beirut airport as well as a cut in customs duties in November 2000, the initialising of an association agreement with the EU in January 2002, launching VAT the

<sup>63</sup> EIU, *Country Report: Lebanon*, January 2001 (electronic version).

<sup>64</sup> Interview with Mazin Hanna, project director for a World Bank project, project director for a World Bank project, Beirut, 3<sup>rd</sup> March 2008.

following month, and restructuring the state-owned Middle East Airlines (MEA) for privatisation (Lebanese Republic, 2002 pp. 1-2, Annex II).

In order to sell these policies to the IMF as suitable to “outgrow” government debt, Hariri relied on a “second generation” of technocrats. They had been recruited from international financial institutions such as the IMF to work in UNDP or World Bank financed “capacity building” schemes in the Lebanese administration. Some were hired by Hariri’s economic advisor Nadim Munla, most importantly Bassil Fulayhan. They contrasted with the “first generation” technocrats who had originally been employed in Hariri’s construction company Oger or one of his banks in the 1980s, including Fadl Shalaq or Fu’ad Siniora (see chapter 3 and appendix 5). Rafiq Hariri thus continued to rely on his wide and developing network of Lebanese elites in pursuit of his political and economic goals. He had used the first generation technocrats to realise his reconstruction and government finance policies, the former left-wing ideologist Muhammad Kishli to negotiate with the trade unions, former Maqasid functionary Salim Diab to build up a clientelist network in Beirut, and Ridwan al-Sayyid and Muhammad Samak to liaise with the Sunni clerical establishment. When Hariri required IMF support to avoid financial crisis, he turned to the second generation technocrats whom Munla had poached from the Fund in the first place. The dynamics of network-building shaped Hariri’s policies because the various elites attracted to his network brought their specific expertise and worldview to bear on the “solutions” Hariri required. Bassil Fulayhan was the main Lebanese negotiator with the IMF, assisted by Mazin Hanna.<sup>65</sup> At times, the two men used Hariri’s private jet to travel to important meetings.<sup>66</sup> In April 2002, Hariri himself travelled to Washington to meet representatives of the IMF, the World Bank and the US administration.<sup>67</sup> Hariri and his technocrats failed to sway key directors, including managing director Horst Köhler, the director of the Middle East department Paul Chabrier, and deputy managing director Eduardo Aninat, who was responsible for the Lebanon file.<sup>68</sup>

<sup>65</sup> Interview with Mazin Hanna, Beirut, 3<sup>rd</sup> March 2008.

<sup>66</sup> Interview with Mazin Hanna, Beirut, 3<sup>rd</sup> March 2008.

<sup>67</sup> EIU, *Country Report: Lebanon*, July 2002 (electronic version).

<sup>68</sup> Interview with Mazin Hanna, Beirut, 3<sup>rd</sup> March 2008.

As the most influential shareholder in the IMF, the United States could have pressed the fund to grant aid contrary to its own economic assessment, as it had done in the case of Russia in 1998 (Stiglitz, 2002 p. 202). However, no such support from the US was forthcoming. The United States sent a delegate to Paris II but did not pledge any aid. To the disappointment of the Lebanese, this US delegate was not a high profile representative such as Secretary of State Colin Powell but the much more junior Middle East peace envoy William Burns. Reportedly, the US stance discouraged Japan from pledging any financial aid, while other Western states such as Germany, the UK, or Spain also abstained.<sup>69</sup> This stands in marked contrast with the “Friends of Lebanon” meeting in 1996. It had been organised by the Clinton administration and resulted in pledges of US\$3 billion in direct financial aid by 30 donors.<sup>70</sup> In 1996, Hariri had just helped to negotiate an agreement which established formal rules of engagement between Hizballah and the Israeli forces, rules which helped keep any conflagration between the two parties to a minimum until the war of 2006. The Clinton administration was then still hopeful of negotiating a peace agreement between Syria and Israel, followed by a similar accord involving Lebanon. Taming Hizballah seemed merely a function of a deal with Damascus. The situation in 2002 was very different: the US outlook was now determined by hawkish neoconservatives.

Since Wall Street banks had no direct stake in Lebanon, the US government had little incentive to override the IMF’s negative assessment. Furthermore, the status of Hizballah remained at the forefront of American thinking on Lebanon. Hariri denied that his refusal to cooperate with US demands to pressure Hizballah affected the American stance on Paris II: “The Americans never tied their economic aid to action against Hizbullah, neither publicly nor privately. There might, indeed, be differences between us and the United States, but this does not stop us from working together.”<sup>71</sup> Despite Hariri’s denials, there was a widespread assumption that the US would make the provision of financial aid at Paris II conditional on the Lebanese government taking

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<sup>69</sup> EIU, *Country Report: Lebanon*, January 2003 (electronic version)

<sup>70</sup> *MEI*, 20<sup>th</sup> December 1996, p. 15.

<sup>71</sup> In an interview with *Le Figaro*, 2<sup>nd</sup> July 2002, available at <http://www.rhariri.com/news.aspx?ID=613&Category=Interviews>, viewed on 27<sup>th</sup> January 2010.

concrete steps to rein in Hizballah.<sup>72</sup> In the end the IMF and the United States both declined to support Paris II beyond sending delegates to the conference.

The success of the conference therefore hinged on the support by two countries acting as “white knights” who came riding to the rescue. France and Saudi Arabia were the biggest donors, followed by other Gulf states and Malaysia. Lebanon received a total of US\$3.0 billion in concessionary loans and an additional US\$1.2 billion in project financing (see appendix 13).<sup>73</sup> French support was crucial for organising the conference. As a major IMF shareholder, an EU member, and a member of the G7 of the biggest industrialised economies, France had the clout to call such an international donor conference. Saudi Arabia’s role was primarily financial, providing the largest chunk of aid. French support for Paris II was due to Hariri’s close relations with President Jacques Chirac. The French leader pursued an activist Middle East policy and relied on local allies to formulate and realise this strategy. Among these local allies was Rafiq Hariri. The Lebanese billionaire had already started cultivating his relation to the French political class in the 1980s.<sup>74</sup> In 1979 Hariri had acquired a large French contracting company when he bought Oger. Ever conscious of the symbolic value of real estate, Hariri also bought the former residence of Gustav Eiffel. Reflecting his status as a close ally of Saudi Arabia, he received diplomatic status as “3<sup>rd</sup> Councillor” at the Saudi embassy. Politically, Hariri proved “helpful” to the French government. He was said to have contributed to freeing French hostages in Lebanon during Chirac’s government from 1986 to 1988, gave US\$15 million to the Institut du Monde Arabe, and lent a strong hand to French investors in a collapsed Saudi bank (Naba, 1999 pp. 20-21). Hariri built up a close relationship with Jacques Chirac. Some critics accused Hariri of financially supporting Chirac’s election campaign in 1995.<sup>75</sup> Whether this is true or not, Chirac supported Hariri’s post-war policies. In the 1990s Chirac repeatedly called on Christians to participate in public affairs to legitimise the post-war order and he cold-shouldered the Christian leaders in French exile, Michel ‘Awn and Amin

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<sup>72</sup> EIU, *Country Report: Lebanon*, October 2002 (electronic version)

<sup>73</sup> Unless otherwise indicated, the following data about Paris II are derived from: EIU, *Country Report: Lebanon*, January 2002 (electronic version).

<sup>74</sup> This account of Hariri’s early activities in France is based on Naba (1999 pp. 20-21).

<sup>75</sup> *MEI*, 12<sup>th</sup> April 1996, p. 7-9.

Gemayel.<sup>76</sup> The greatest proof of close cooperation between the Chirac and Hariri administrations came in April 1996 during Israel's bombing of Lebanon dubbed "Grapes of Wrath", when French shuttle diplomacy helped end the crisis and established a set of "rules" between Israel and Hizballah. Hariri claimed the French involvement as a success of his international network of contacts (Iskandar, 2006 p. 79). Whether Hariri's influence on Chirac's Middle East policy rested on "corruption" is impossible to prove. What is beyond doubt is that the two men helped to further each other's agenda in the Middle East and that Chirac's view of Lebanon and the region was strongly influenced by Hariri (Picard, 2006 p. 146). The close relationship between Hariri and Chirac explains French support for Paris II. Backing by a G7 member and major IMF shareholder was indispensable for the success of the meeting. This crucial role was highlighted several ways. Firstly, France had organised the Paris I conference in 2001, secondly, the timing of the conference was determined by France: Hariri had to await Chirac's re-election in April 2002.

The second "white knight" was Saudi Arabia. The reason for the kingdom's involvement was its long-standing support for Hariri's policies in Lebanon. In order to understand the importance of this Saudi action, we must turn to an IMF working paper published in 2008 (Schimmelpfennig and Gardner, 2008). The authors were trying to understand how Lebanon had avoided financial crisis despite extremely high government debt. The reasons they identify are a "dedicated" investor base consisting of Lebanese depositors but also the perception by both commercial banks and depositors of an "implicit guarantee" from donors or international financial institutions (p. 19). While not explicitly linking this guarantee to Saudi Arabia, the report repeatedly mentions the Saudi and Kuwaiti deposits to the central bank during the 2006 war, thus making clear that Saudi Arabia is the source of the guarantee. Paris II in November 2002 was of course important in creating the perception of an "implicit guarantee" from the Gulf countries. Other important episodes were a Saudi deposit of

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<sup>76</sup> *Lebanon Report*, Spring, 1996, electronic version, available at: [http://lcps-lebanon.org/pub/tlr/96/sp96/index\\_sp96.html](http://lcps-lebanon.org/pub/tlr/96/sp96/index_sp96.html), viewed on 21<sup>st</sup> November 2011. *Lebanon Report*, Summer 1996, p. 14-15.

US\$600 million with the Lebanese central bank at a lenient interest in 1998.<sup>77</sup> Even more crucial was Saudi involvement in buying up US\$1 billion worth of Eurobonds that Lebanese banks had refused to purchase in April 2002.<sup>78</sup> This was the turning point after which dollarization receded. The share of US dollar deposits in total deposits declined steadily from a peak of 74.2% in May 2002 to 66.1% in February 2004, when the dispute over the presidential succession affected investor confidence.<sup>79</sup>

The Eurobond purchase of April 2002 and the “implicit guarantee” that came with it represented the end of a journey for Lebanon’s political economy – a journey into financial dependency on Saudi Arabia: Only the kingdom’s “implicit guarantee” kept the “merry go round” of government borrowing going. The implications for Lebanese domestic politics are enormous: Saudi Arabia stands between Lebanon and financial crisis and has thus gained a say in Lebanese politics. The major foreign powers which interfered in pre-war politics used primarily ideological resources and violence to influence the Lebanese scene, be they Nasser’s Egypt, Arafat’s PLO, or Assad’s Syria. Saudi Arabia, which relied primarily (but not exclusively) on its wealth to project power into Lebanon was in a subordinate position. The shift in Lebanon’s political economy, which was hastened by the Saudi ally Rafiq Hariri, changed this situation. Because Lebanon is effectively dependent on Saudi goodwill to avoid financial collapse, the kingdom has become a major player in Lebanese politics. Rafiq Hariri has been the advocate of Saudi interests in Lebanon. From 2002 onwards – at a time when Syria and Iran were emerging as Saudi Arabia’s main opponents both in the region and in the Lebanese arena – Lebanon’s economic dependence provided the kingdom with leverage over the very heart of the country’s economy.

As soon as Paris II had been concluded, all the relevant measures of financial stress improved. Interest rates on two-year treasury bonds fell from 14.6% in October 2002

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<sup>77</sup> The loan was reported to originate from the Saudi monetary authorities. The interest rate stood at 5% for three years. EIU, *Country Report: Lebanon*, 1<sup>st</sup> Quarter 1999, p. 12.

<sup>78</sup> Other buyers were Malaysia, other Gulf states, and local investors. *Middle East Economic Survey*, 8<sup>th</sup> July 2002, p. B3-4. EIU, *Country Report: Lebanon*, July 2002 (electronic version).

<sup>79</sup> Data downloaded from the Banque du Liban website, available at: <http://www.bdl.gov.lb/edata/index.asp>

to 9.4% in December 2002 and further to 8.0% in November 2003.<sup>80</sup> Dollarization had been receding since April 2002, when Saudi Arabia had signalled its “implicit guarantee” by buying Eurobonds. After Paris II the share of dollar deposits continued to fall further. Paris II had a salutary effect on interest rates for private sector borrowers. Interest rates on Lebanese pound denominated loans from Lebanese commercial banks fell from 16.3% in October 2002 to 10.4% in January 2005.<sup>81</sup> Interest rates on US dollar loans continued their decline, which had started in early 2000. Yet despite the decline in interest rates, provision of credit to the private sector actually stagnated after November 2002, while public sector debt continued to rise and Lebanese banks started lending abroad.<sup>82</sup> The central bank continued buying T-bills and in November 2003, a year after Paris II, it held exactly a third of treasury bills in circulation.<sup>83</sup> The central bank continued financing these purchases by selling certificates of deposit (CDs) to commercial banks at undisclosed interest rates.<sup>84</sup> The banks and their depositors did have to accept a reduction in profits after Paris II. The government reached a deal with Lebanon’s commercial banks to reschedule government debt. The banks agreed to exchange the equivalent of the value of 10% of their deposit base into non-interest bearing bonds of a maturity of two years. The combined interest received from treasury bills and other government bills (which includes Eurobonds and T-bills), and bonds and financial instruments with fixed income (which include CDs) fell from US\$2.2 billion in 2002 to US\$1.8 billion in 2005, with the share of bonds and financial instruments with fixed income rising (Baz, various years). The prize for keeping the merry-go-round going was to slow it down.

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<sup>80</sup> Data downloaded from the Banque du Liban website, available at: <http://www.bdl.gov.lb/edata/index.asp>.

<sup>81</sup> Data downloaded from the Banque du Liban website, available at: <http://www.bdl.gov.lb/edata/index.asp>.

<sup>82</sup> As measured in commercial bank claims on the public and private sector. Data downloaded from the Banque du Liban website, available at: <http://www.bdl.gov.lb/edata/index.asp>.

<sup>83</sup> Data downloaded from the Banque du Liban website, available at: <http://www.bdl.gov.lb/edata/index.asp>.

<sup>84</sup> One such financial operation that did get publicised illustrates how the burden of financing government debt was shifted from the government to the central bank: In April 2004 the EIU reported that the central bank had provided T-bills worth US\$430 million to the government at an interest rate of only 4% and at a maturity of four years. The operation was financed through the sale of CDs to commercial banks at a rate of 11%. The cost differential was to be borne by the central bank, while official government statistics would show a reduction in debt servicing cost. EIU, *Country Report: Lebanon*, April 2004 (electronic version)

Lebanon avoided financial crisis for two reasons: Firstly, because of the small creditor base of key Lebanese investors, who acted as a buffer between the Lebanese government and global financial markets; secondly, because France and Saudi Arabia were willing to act as “white knights” who provided financing at concessionary rates. US finance had no direct stake in Lebanese debt and the Bush administration had demanded that Lebanon rein in Hizballah. The US did therefore not support Paris II beyond a token presence. Similarly, the IMF disagreed with the Hariri government over the feasibility of sustaining the currency peg that appeared dangerously similar to the failed Argentinean and Turkish pegs. The IMF had no stake in Lebanon because relations had previously been at arms’ length. The Fund did not provide any funding at Paris II. The “implicit guarantee” provided by Saudi Arabia gave the kingdom great leverage over Lebanon’s “very political economy”.

Hariri worked hard to salvage the rent-creation mechanism linked to government debt. A second rent-creation mechanism that was saved was reconstruction. After Salim al-Huss had succeeded Hariri as prime minister, Hariri ally Nabil al-Jisr was removed as head of the CDR.<sup>85</sup> Hariri loyalist Nicolas Saba was replaced as governor (muhafiz) of Beirut. Solidere started complaining about delays in construction permits, which unnerved investors.<sup>86</sup> In 1999 the company reported that profits had fallen by 30% and in 2000 it recorded losses.<sup>87</sup> All this changed when Hariri returned to the post of prime minister. In December 2001, Hariri protégé Jamal ‘Itani became CDR president.<sup>88</sup> Birri’s brother left the CDR board of directors, reducing the speaker’s ability to influence the agency’s policy.<sup>89</sup> Solidere’s net profits climbed sharply from US\$1.9 million in 2001 to US\$42 million in 2002.<sup>90</sup> Major projects, such as a giant shopping centre, were finally approved.<sup>91</sup> Regulation was liberalised: A new property ownership law was passed in 2001 removing restrictions on non-nationals owning property.<sup>92</sup> Solidere could market properties directly to Gulf Arabs, an opportunity which Hariri enthusiastically

<sup>85</sup> *MEI*, 11<sup>th</sup> December 1998, p. 6. *MEI* 13<sup>th</sup> October 2000, p. 16.

<sup>86</sup> EIU, *Country Report: Lebanon*, October 2000 (electronic version).

<sup>87</sup> *MEI*, 7<sup>th</sup> May 1999, p. 16-17. EIU, *Country Report: Lebanon*, July 2002 (electronic version).

<sup>88</sup> EIU, *Country Report: Lebanon*, January 2002 (electronic version).

<sup>89</sup> EIU, *Country Report: Lebanon*, April 2002 (electronic version).

<sup>90</sup> EIU, *Country Report: Lebanon*, July 2003 (electronic version).

<sup>91</sup> EIU, *Country Report: Lebanon*, January 2004 (electronic version).

<sup>92</sup> EIU, *Country Report: Lebanon*, April 2001 (electronic version).

advertised in the Gulf media.<sup>93</sup> The powers of the CDR were bolstered. It became the exclusive conduit of foreign-financed reconstruction projects and its funding was increased.<sup>94</sup> This was particularly important because foreign funding became Hariri's preferred means for financing major infrastructure projects, with US\$1.2 billion in project financing pledged at Paris II.<sup>95</sup> Reconstruction and government borrowing were the rent-creation mechanisms that Hariri benefited most from. The salvaging of these two rent-creation mechanisms was central to Hariri's neoliberalisation drive 2000 to 2004.

### 6.2.2. Rent-creation mechanisms that Hariri attacked

Hariri salvaged the rent-creation mechanisms that he controlled and that he benefited from most. However, he attacked those mechanisms which primarily benefited his opponents. The focus of discussion here will be on struggles within the "troika": Firstly, with Speaker Nabih Birri who was a former militia leader and derived patronage resources from his control of "service ministries" as well as several state-controlled enterprises, and secondly, President Emile Lahud, who sought to appropriate state resources on behalf of the military and intelligence establishment and to deny investment opportunities to Hariri. Both Birri and Lahud were close allies of the Syrian leadership. The conditions attached to Paris II became a weapon in Hariri's arsenal: privatisation, the introduction of VAT, reducing government expenditure, removing trade restrictions, and liberalising markets. Hariri tried to cut expenditure on "service ministries" and on security and defence. Such cuts to spending ministries – particularly welfare – are a hallmark of neoliberal fiscal policy. The "three presidents" struggled over spending by the Council of the South, which was Birri's fief, and expenditure of military and security agencies, which was Lahud's main concern.

The policies proposed by the Lebanese government at Paris II provide a good overview of Hariri's neoliberalisation programme: introducing VAT, privatisation, cutting the

<sup>93</sup> Rafiq Hariri in an interview to the Saudi newspaper al Jazira, 20<sup>th</sup> April 2001, available at <http://www.rhariri.com/news.aspx?ID=63&Category=Interviews>, viewed on 27<sup>th</sup> January 2010.

<sup>94</sup> EIU, *Country Report: Lebanon*, April 2001 (electronic version).

<sup>95</sup> EIU, *Country Report: Lebanon*, January 2002 (electronic version).

public sector workforce while improving performance, trade liberalisation, and promoting investment (Lebanese Republic, 2002 p. Annex I). Privatisation was particularly controversial because it revealed very different visions about the role of the state within the troika. These alternative visions were linked to the means by which Hariri, Lahud, and Birri accessed rents in the post-war economy. Hariri's privatisation programme was designed to create investment opportunities for members of the new contractor bourgeoisie such as himself, who had access to the necessary funding and the expertise to buy up state enterprises. Lahud was concerned with maintaining state control over strategic industries such as telecommunications because he associated his power with the state machinery. As a former militia leader serving a popular base, Birri regarded state owned companies as means to extend patronage to his followers. Hariri's clash with Lahud over telecommunications and with Birri over Middle East Airlines (MEA) and Electricité du Liban (EDL) illustrate these differences. In the case of MEA and EDL, Hariri's privatisation plans undermined his rivals' access to rent, while opening new opportunities for rent-creation and – capturing for private investors such as himself. In the case of mobile telecommunications, Lahud was keen to curtail Rafiq Hariri's ability to privatise rent previously appropriated by the state, which Lahud sought to convert into an instrument for his neo-Shihabist agenda. Hariri's privatisation drive was therefore deeply political rather than merely the “right” economic policy.

The biggest bone of contention was the fate of mobile telecommunications. While Hariri advocated their full privatisation, President Lahud wanted the state to retain control of mobile phone revenues. In the end, Lahud's proposal was realised. Two companies – Libancell and Cellis – had received ten year “build-operate-transfer” (BOT) contracts to run the mobile phone network from 1994 to 2004. France Telecom owned two thirds of Cellis while the brothers Taha and Najib Miqati owned the rest.<sup>96</sup> The brothers belonged to the “new contractor bourgeoisie”, having acquired wealth in

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<sup>96</sup> EIU, *Country Report: Lebanon*, July 2002 (electronic version). See also *MEIB*, January 2003, available at [http://www.meib.org/articles/0301\\_12.htm](http://www.meib.org/articles/0301_12.htm), viewed on 11<sup>th</sup> January 2008.

Gulf-contracting and a wartime analogue mobile phone network in Lebanon.<sup>97</sup> Good relations with the Assad family are said to have helped them expand in Lebanon.<sup>98</sup> Unlike Hariri, they did not enjoy strong Saudi backing. Najib Miqati used his position to enter politics and from 1998 to 2004 he was minister of transport and public works. Lebanon's other mobile phone operator Libancell was majority-owned by Dalloul Group, controlled by 'Ali and Nizar Dallul.<sup>99</sup> They are the sons of Muhsin Dallul, defence minister from 1992 to 1998 and a prominent member of the Lebanese National Movement during the civil war and a close ally of Syria (Majed and Young, 1996 p. 53). 'Ali Dallul is married to a stepdaughter of Rafiq Hariri.<sup>100</sup> There are also unverified claims that the Dalluls were acting as a front in the interest of Hariri's Syrian allies Hikmat Shihabi and 'Abd al-Halim Khaddam.<sup>101</sup> The original BOT contracts of 1994 were symptomatic for the way in which the new contractor bourgeoisie, a person linked to civil war movements, and possibly members of the Syrian regime were appropriating rents created in Lebanon's post-war economy. Despite the close network between political elite and the mobile phone operators the relationship between government and companies tended towards conflict. Both the Hariri and al-Huss governments imposed various charges on the mobile phone companies and turned down offers to convert the 10-year BOT contracts into 20-year operating licenses.<sup>102</sup> The Hariri government unilaterally cancelled the original BOT in June 2001 hoping it could raise more money from other bidders.<sup>103</sup> The global IT bubble had just

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<sup>97</sup> The information about the brothers' business interests is from: *Forbes*, 10<sup>th</sup> March 2010, available at: [http://www.forbes.com/lists/2010/10/billionaires-2010\\_Taha-Mikati\\_GSB7.html](http://www.forbes.com/lists/2010/10/billionaires-2010_Taha-Mikati_GSB7.html), viewed on 7th June 2010. *MEED*, 21<sup>st</sup> November 2008, p74. *ANARAM*, 19<sup>th</sup> December 1983, p. 8. Exelby, 1998 p. 27.

<sup>98</sup> The close relations of the Miqati brothers to the Syrian regime are an oft-repeated claim in Lebanon. It is a claim also made in: *MEIB*, January 2003, available at [http://www.meib.org/articles/0301\\_I2.htm](http://www.meib.org/articles/0301_I2.htm).

<sup>99</sup> EIU, *Country Report: Lebanon*, July 2002 (electronic version).

<sup>100</sup> EIU, *Country Report: Lebanon*, July 2002 (electronic version). (Sfakianakis, 2002 p. 34)

<sup>101</sup> The claim was made in *MEIB*, January 2003, available at [http://www.meforum.org/meib/articles/0301\\_I2.htm](http://www.meforum.org/meib/articles/0301_I2.htm), viewed on 1<sup>st</sup> August 2011. The claim appears to originate with Jean Agbey, who sued Hariri in the United States in the mid-1990s, claiming that he had been a partner in Dallul's Lebanese mobile phone venture but had been sidelined by Dallul and Hariri on behalf of Syrian general Hikmat Shihabi. Agbey lost the case. *Insight on the News*, 5<sup>th</sup> February 1996, available at: [http://findarticles.com/p/articles/mi\\_m1571/is\\_n5\\_v12/ai\\_17951471/pg\\_1?tag=content;col1](http://findarticles.com/p/articles/mi_m1571/is_n5_v12/ai_17951471/pg_1?tag=content;col1), viewed on 8<sup>th</sup> June 2010. *Washington Examiner*, 3<sup>rd</sup> December 2008, available at [http://www.washingtonexaminer.com/local/Alexandria\\_man\\_charged\\_with\\_swindling\\_through\\_mortgages.html](http://www.washingtonexaminer.com/local/Alexandria_man_charged_with_swindling_through_mortgages.html) viewed on 8th June 2010.

<sup>102</sup> EIU, *Country Report: Lebanon*, 4<sup>th</sup> Quarter 1995, p. 14. EIU, *Country Report: Lebanon*, 1<sup>st</sup> Quarter 1996, p. 14. EIU, *Country Report: Lebanon*, October 2000 (electronic version).

<sup>103</sup> EIU, *Country Report: Lebanon*, July 2001 (electronic version).

burst and the government failed to attract a bidder for the licenses. It had to reinstate Cellis and Libancell and resume negotiations with these two companies.<sup>104</sup>

On the government side, Lahud and Hariri were arguing over the fate of the mobile phone licenses. The president argued that the state should “recover” the operations of the mobile phone companies, thus effectively nationalising them.<sup>105</sup> In contrast, Hariri sought complete privatisation. What was at stake were large profits of the duopoly. In 1998, revenue from mobile phone operations reached US\$440 million (International Telecommunications Union, 2002). The government also took a cut from the mobile phone operators. World Bank calculations suggest that government income from telecommunications amounted to LL650 million, or 13.9% of total government revenue, in 2001 (World Bank, 2005 p. 77). Lahud’s proposal won out despite a deal between Hariri and Lahud brokered in April 2002.<sup>106</sup> The telecommunications ministry was controlled by Jean-Louis Qurdahi, an ally of the president. He was in a position to veto any of Hariri’s privatisation plans. The existing operators left the sector: Najib Miqati sold his stake in Cellis to France Telecom, while ‘Ali Dallul said he would not seek a new license. In December 2002 the mobile phone companies formally transferred their assets to the state, opening the way for tenders to be put up for auction in January 2003.<sup>107</sup> A turning point was reached in the cabinet reshuffle of April 2003, when Hariri was forced to retain Qurdahi as telecommunications minister. In September 2003, the cabinet approved the telecommunication minister’s proposal to let two private companies run formally state-owned mobile phone networks, rather than privatising them by granting operating licenses to them.<sup>108</sup> Lahud’s design to reassert state control over the mobile phone networks had won out over Hariri’s privatisation plans. Hariri’s aim had been to open up new opportunities for investment and capturing rent. Lahud’s aim was to channel the rents from the mobile phone operators to the state. This betrayed fundamentally different visions of the state and the division of economic power: while Hariri’s plans would have strengthened the new

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<sup>104</sup> EIU, *Country Report: Lebanon*, April 2002 (electronic version).

<sup>105</sup> EIU, *Country Report: Lebanon*, July 2002 (electronic version).

<sup>106</sup> EIU, *Country Report: Lebanon*, July 2002 (electronic version).

<sup>107</sup> EIU, *Country Report: Lebanon*, January 2003 (electronic version). EIU, *Country Report: Lebanon*, April 2003 (electronic version).

<sup>108</sup> EIU, *Country Report: Lebanon*, October 2003 (electronic version).

contractor bourgeoisie or foreign investors, Lahud sought to beef up the machinery of the state, the executive of which he headed. Not only was Hariri's neoliberalisation drive checked by the failure to privatise the mobile phone networks, Lahud even managed to roll the process back and to extend state control over the industry. Subsequently, state income from telecommunications rose to LL1,310 billion in 2004, equivalent of 17.4% of government revenue (World Bank, 2005 p. 77).

While Hariri faced opposition from Lahud in the field of telecommunications, he confronted Birri over the privatisation of national carrier Middle East Airlines (MEA). The company is potentially highly profitable because of Lebanon's expanding tourism sector. Hariri wanted to sell the company to a private investor who would restore profitability by cutting staff. Birri had used control of MEA to provide jobs for his followers and was keen to defend their interests. This basic difference in outlook coloured the conflict over MEA's future. Few companies have mirrored the fortunes of Lebanon's bourgeoisie like MEA. It was founded in 1945 by members of Beirut's pre-war bourgeoisie, including Sa'ib Salam and a relative of Salim al-Huss. The owners used their political and business contacts in the Gulf and the US to establish MEA as a major regional airline (Gendzier, 1999 pp. 101-105). However, in 1961 Yussuf Baydas gained majority ownership of MEA. The Palestinian-Lebanese owner of Intrabank belonged to a new bourgeoisie that was challenging Lebanon's established business families during the Shihabist era 1958 to 1970. MEA was a symbol of Baydas' arrival at the centre of Lebanon's business life. The bank collapsed in 1966 because key depositors had turned against Baydas and the Lebanese government and central bank were unwilling to prop up the arriviste businessman. The bank became a state-owned holding company, Intra Invest. In the 1980s, Roger Tamraz ran Intra and unsuccessfully sought to gain control of MEA on behalf of businessmen networked around Kata'ib and the Lebanese Forces.<sup>109</sup>

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<sup>109</sup> ANARAM, 10<sup>th</sup> December 1984, p. 4. MEED, 11<sup>th</sup> January 1986, p. 16.

In 1996 the chairman of Intra Investment Company was Mahmud Skayni, an ally of Nabih Birri.<sup>110</sup> A former militia leader had thus gained control of the holding company, including its 62.5% stake in MEA. However, MEA was in financial difficulties and required fresh capital.<sup>111</sup> Eventually, the central bank provided US\$179 million and received 90% of the share capital in return, leaving Intra with 9% and Air France with 1%.<sup>112</sup> Intra's shareholding in MEA and hence its influence had been diluted. In political terms, this was a defeat for Birri and a victory for Hariri: While Intra was headed by Birri ally Skayni, central bank governor Riyadh Salama was close to Hariri.<sup>113</sup> The prime minister also gained greater operational influence on the company in 1997. MEA chairman Khalid Salam was found to have accepted commissions for an extremely unfavourable aircraft leasing deal with Singapore.<sup>114</sup> Salam was replaced with Muhammad al-Hut, a former central bank employee who would later be close to Sa'd Hariri's Future Movement.<sup>115</sup> A Hariri-man had thus become MEA chairman. The struggle over MEA reveals fundamentally different conceptions of the Lebanese economy held by Nabih Birri and Rafiq Hariri. The former militia leader needed it as a patronage instrument to provide jobs to his clientele. As a result MEA suffered a huge wage bill. In 2001 it employed 4,500 people, including 160 pilots, to operate nine aircraft.<sup>116</sup> Profits were less of a concern. In 1996 the company lost US\$50 million because of Israel's attacks during "Grapes of Wrath" but also because of mismanagement.<sup>117</sup> Many employees had received their job as a favour from Birri and most were Shi'i.<sup>118</sup> The sectarian logic of Lebanese politics required that the speaker

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<sup>110</sup> *Lebanon Report*, Summer 1996, available at: <http://www.lcps-lebanon.org/pub/tlr/96/sum96/s96MEA.html> viewed on 8th June 2010.

<sup>111</sup> *Lebanon Report*, Summer 1996, available at: <http://www.lcps-lebanon.org/pub/tlr/96/sum96/s96MEA.html> viewed on 8th June 2010.

<sup>112</sup> *Business Middle East*; 5<sup>th</sup> January 1997, p7.

<sup>113</sup> Possible reasons why Birri agreed to the takeover include Hariri's threat to buy up the shares that Kuwaiti and Qatari investors own in Intra, which amounted to a combined 35% of the holding. *Lebanon Report*, Summer 1996, available at: <http://www.lcps-lebanon.org/pub/tlr/96/sum96/s96MEA.html> viewed on 8th June 2010.

<sup>114</sup> *Business Middle East*, 1<sup>st</sup> January 1998, p. 5.

<sup>115</sup> *Al Akhbar*, 31<sup>st</sup> January 2010, available at: <http://www.al-akhbar.com/ar/node/175381>. An English translation is available at <http://www.mideastwire.com>.

<sup>116</sup> EIU, *Country Report: Lebanon*, July 2001 (electronic version).

<sup>117</sup> *Business Middle East*; 5<sup>th</sup> January 1997, p. 7.

<sup>118</sup> When MEA was preparing for job cuts in 1996, it reportedly drew up three lists of possible redundancies: those who can be released for medical reasons, those nearing retirement age; and those who were hired during the war under pressure from political figures. *Lebanon Report*, Summer 1996, available at: <http://www.lcps-lebanon.org/pub/tlr/96/sum96/s96MEA.html> viewed on 8th June 2010. The preponderance of Shi'i employees at MEA was not just due to Birri doling out jobs but also other circumstances: During the war it was easier and safer for inhabitants of the predominantly Shi'i

defend the workers' interests. In contrast, Hariri had an eye on MEA's potential as a profit-making concern, which meant that the company to shed workers to prepare it for privatisation.

After Hariri had returned to the post of prime minister in 2000, he tackled MEA. In March 2001 Birri reportedly agreed to MEA privatisation in return for increased funding for the Council of the South, Birri's main patronage vehicle.<sup>119</sup> The patronage resources taken away from him at MEA would be given back through the Council. Plans were drawn up to make 1,300 of the company's 4,500 staff redundant, using a US\$60 million loan from the World Bank to compensate them.<sup>120</sup> Birri's acquiescence to MEA restructuring allowed rival movements to court Amal supporters among the airline's staff. Hizballah organised strikes and protests in defence of MEA's predominantly Shi'i workforce.<sup>121</sup> 'Ali Qansu from the SSNP used his position as labour minister to protect the workers, hinting that the choice of redundancies could be decided along sectarian lines.<sup>122</sup> What is worse, Birri felt that Hariri had broken the promises made in March 2001: In late 2001, Hariri proposed to cut funds for the Council of the South rather than increase them.<sup>123</sup> The redundancies of predominantly Shi'i workers at MEA and the assumption that the Sunni billionaire Hariri would snap up the airline turned the restructuring and privatisation into a sectarian issue. In the end, 1,280 employees were sacked, while 740 employees were shifted to affiliate companies. In 2002, MEA recorded a slim profit of US\$3 million, its first in 25 years.<sup>124</sup> While Hariri protégé al-Hut managed to cut the MEA workforce and rationalise the route network, actual privatisation was thwarted by Hariri's opponents.

Electricité du Liban (EDL) is another example where Hariri sought to privatise profits while Birri defended the interests of his clientele. The company had managed to

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neighbourhoods around the airport to reach it than from other areas of the city, while the technical college in Harat Hurayk is also located in a predominantly Shi'i quarter. *MEI*, 13<sup>th</sup> July 2001, p 16-17.

<sup>119</sup> *MEI*, 6<sup>th</sup> April 2001, p. 17.

<sup>120</sup> EIU, *Country Report: Lebanon*, April 2001 (electronic version).

<sup>121</sup> EIU, *Country Report: Lebanon*, July 2001 (electronic version).

<sup>122</sup> *Business Middle East*; 16<sup>th</sup> June 2001, p. 4.

<sup>123</sup> EIU, *Country Report: Lebanon*, January 2002 (electronic version).

<sup>124</sup> *MEED*; 5<sup>th</sup> December 2003, p. 33.

maintain operations throughout the war but at the end it had insufficient generating capacity, and no up-to-date customer records. Hariri's reconstruction drive raised generating capacity from 700MW in 1990 to 2,315 in 2002 but the company never recovered the ability to collect electricity charges (Oxford Business Group, 2005 p. 89). Only 55% of electricity produced was actually paid for, according to a parliamentary report from 2001.<sup>125</sup> Estimates of EDL's debt ranged from US\$1-2 billion (Oxford Business Group, 2005 pp. 90-91). The beneficiaries of free electricity include a wide range of groups, prompting George Qurm, finance minister from 1998 to 2000, to call EDL "the cave of Ali Baba and the 40 thieves".<sup>126</sup> Non-payment is reported to be more widespread among the predominantly Shi'i areas of the Biqa' Valley, south Lebanon, and Beirut's southern suburbs, as well as in Palestinian refugee camps.<sup>127</sup> However, politically privileged groups also refuse to pay their bills: in July 2001, EDL workers published the names of some politicians who were not paying their electricity bills.<sup>128</sup> Government agencies had built up long arrears towards EDL. There existed, thus, a formidable coalition of forces who stood to lose from privatisation, while potential investors stood to gain. Birri was one of the politicians whose clientele had an interest in preventing EDL privatisation. Hariri had promised privatisation of the power sector at Paris II. The electricity minister in charge was Muhammad Baydun who took office in 2000. He had been the head of the Council of the South from 1985 to 1991. Although he was a Birri loyalist, he built up a good working relationship with Hariri. This angered Birri, who suspended Baydun from Amal in December 2002.<sup>129</sup> Baydun was removed from cabinet in the reshuffle of April 2003, undermining Hariri's plans to restructure EDL. In August 2002 parliament had passed a law to sell EDL. The company would be broken up into three separate entities – generation, transmission, and distribution – and up to 40% of the shares of the generation and distribution businesses would be sold to a "strategic investor". Critics of the plan noted that it merely substituted a private monopoly for a public one and would not provide sufficient new investment (Oxford Business Group, 2005 pp. 90-91). Privatisation would thus have been highly lucrative for any potential investor. However, EDL was never actually privatised and

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<sup>125</sup> EIU, *Country Report: Lebanon*, April 2001 (electronic version).

<sup>126</sup> EIU, *Country Report: Lebanon*, 2<sup>nd</sup> Quarter, 2000 (electronic version).

<sup>127</sup> EIU, *Country Report: Lebanon*, October 2003 (electronic version).

<sup>128</sup> *MEI*, 27<sup>th</sup> July 2001, p. 15.

<sup>129</sup> EIU, *Country Report: Lebanon* January 2003 (electronic version).

remained in financial crisis, resulting in frequent power-cuts.<sup>130</sup> The saga of EDL illustrates the conflicting agendas of Hariri and Birri: to privatise state enterprises to encourage profit or to retain them for patronage.

One final episode that needs to be mentioned is the case of Bank al-Madina (for a detailed account, see appendix 14). This bankruptcy shows that the growing tension between Hariri and the Syrian regime spilled over into the economy. In July 2003, the banking control commission accused Bank al-Madina's management and leading shareholders of fraud and embezzlement from depositors.<sup>131</sup> The eventual damage was put at US\$1.65 billion.<sup>132</sup> The central bank's watchdog had been on the trail of Bank al-Madina since February. The fall-out from the bank's failure was curtailed by the central bank, which recovered some funds by selling al-Madina's extensive assets including real-estate, luxury yachts and cars. However, the criminal investigation into the fraud was quietly dropped, or at least left to linger inconclusively.<sup>133</sup> As far as the details of the fraud have come into the public domain since Hariri's death, they shed a light on the role of Syrian regime figures in Lebanon's post-war economy and Hariri's ability to undermine this role. Documents leaked to American news outlets suggested that Bank al-Madina had been used for money laundering on behalf of Hizballah, the Russian mafia, dealers of West African "blood diamonds" and – most importantly – funds embezzled from the "oil-for-food" programme in Iraq.<sup>134</sup> Among those implicated was Emile Lahud's son. Bank al-Madina was among the institutions which laundered the illegal proceeds. The real-estate, luxury cars and yachts which Qulailat and Ibrahim Ayyash bought with the bank's funds were reportedly used as kickbacks to keep Lebanese and Syrian officials quiet about the money laundering. The documents leaked to the journalists suggest that Bank al-Madina's beneficiaries included Rustum Ghazala's family, the office manager of Maher al-Assad, Emile Lahud's son, and Ghazi Kan'an. Riyadh Salama left the investigative journalists under the impression that he

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<sup>130</sup> EIU, *Country Report: Lebanon*, October 2003 (electronic version).

<sup>131</sup> EIU, *Country Report: Lebanon*, October 2003 (electronic version).

<sup>132</sup> *Time*, 27<sup>th</sup> October 2005, available at <http://www.time.com/time/printout/0,8816,1123483,00.html>.

<sup>133</sup> EIU, *Country Report: Lebanon*, October 2003 (electronic version).

<sup>134</sup> Unless otherwise indicated, the information in the following paragraph is derived from: *Fortune*, 15<sup>th</sup> May 2006, p. 112-118. *Time*, 27<sup>th</sup> October 2005, available at <http://www.time.com/time/printout/0,8816,1123483,00.html>. *US News and World Report*, 4<sup>th</sup> April 2005, p. 30-31.

had been threatened into dropping the investigation into Bank al-Madina's shareholders and officials in 2003. Whether this is the full story is unclear and Salama's revelations have to be seen as part of the struggle between "March 14", led by Sa'd Hariri, and the Syrian regime.

Hariri's plans to privatise the mobile phone operations brought him into conflict with Lahud, the privatisation of MEA and EDL represented an attack on Birri's interests, while the investigation into Bank al-Madina stepped onto the toes of members of the Syrian regime. Trade liberalisation was also part of Hariri's neoliberalisation drive. This represented an assault on rent-creation mechanisms benefiting the pre-war bourgeois families who controlled the main merchant houses and who held rights of exclusive representation. They had been introduced in 1967 and stipulated that foreign companies are to be represented by one exclusive agent only, forbidding imports of the same product by a third party. This is extremely lucrative for the agent who enjoys a monopoly on the sale of these products. In February 2002, Bassil Fulayhan presented an initiative to scrap exclusive import licenses, just one month after the government had initialised an association agreement with the EU that included trade liberalisation. The initiative was immediately condemned by holders of exclusive import licenses, the Beirut Traders' Association (BTA). The issue rapidly turned sectarian. Christian television stations reported that as 74% of exclusive licences are held by Christians and hence the proposed legislation was undermining the sect's position.<sup>135</sup> This was an attempt to mobilise the Christian community in defence of the privileges of its bourgeois families. The public debate pitted the Christian-owned LBC and MBC – in the hands of a member of the Murr family – against Hariri's Future TV and Birri's NBN. Exclusive agency agreements remained in place and the legislation was not implemented prior to Hariri's death.

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<sup>135</sup> EIU, *Country Report: Lebanon*, April 2002 (electronic version).

### 6.2.3. Persistent poverty and deprivation

Hariri's second neoliberalisation drive from 2000 to 2004 left the mechanisms intact by which poverty, deprivation, and inequality were reproduced: taxation, "crowding out" of credit, and access to health and education services. The tax system became even more regressive than it already was. Indirect taxation is considered highly regressive because lower-income households tend to spend a greater share of their incomes on consumption and are hit disproportionately hard by value added tax (VAT). Direct taxation was extremely low in Lebanon. The Hariri government introduced VAT in February 2002.<sup>136</sup> In neoliberal economic theory, it is regarded as an easy way to raise revenue while not "distorting" incentives by taxing those who aspire to high incomes. VAT was meant to compensate for cuts in customs tariffs linked to the signing of an EU association agreement.<sup>137</sup> By 2004, VAT accounted for 23.5% of total government revenue, including grants (World Bank, 2005 p. 77).

As discussed in chapters 3 and 4, commercial bank lending to the government "crowded out" investment for private businesses, especially in agriculture, industry, and among small and medium sized enterprises (SMEs). This trend continued after Paris II, despite a drop in interest rates. The rate on two-year treasury bills fell from 14.6% in October 2002 to 8.0% in November 2003, the rate on Lebanese pound-denominated loans fell from 16.3% to 11.7% over the same period.<sup>138</sup> The problem of insufficient lending to private sector businesses remained. Claims on the private sector actually fell from 87.7% of GDP in December 2000 to 74.2% in December 2004.<sup>139</sup> Lebanon's commercial banks diversified away from lending to the public sector but did not necessarily lend to private businesses or the productive sector. Banks preferred to

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<sup>136</sup> EIU, *Country Report: Lebanon*, 3<sup>rd</sup> Quarter 1999, p. 17. EIU, *Country Report: Lebanon*, April 2002 (electronic version).

<sup>137</sup> EIU, *Country Report: Lebanon*, April 2002 (electronic version).

<sup>138</sup> Data downloaded from the Banque du Liban website, available at: <http://www.bdl.gov.lb/edata/index.asp>

<sup>139</sup> Data downloaded from the Banque du Liban website, available at: <http://www.bdl.gov.lb/edata/index.asp>

expand by providing loans to consumers: credit to individuals increased from 13.3% to 17.4% over the same period.<sup>140</sup> Another strategy was to expand abroad. The value of foreign assets of Lebanese commercial banks increased from 50.8% of GDP in December 2002 to 63.1% in December 2004.<sup>141</sup> The underdeveloped banking sectors in Arab economies such as Egypt, Jordan and Syria provided attractive arenas for expansion. In short, industry and agriculture and particularly SMEs continued to suffer from a shortage of credit (Nasnas, 2007 pp. 221-242).

The lack of credit for those businesses and sectors which create employment perpetuated poverty and inequality in income and access to education and health services. A follow-up to the 1998 study of living conditions found that the percentage of households suffering from deprivation had fallen from 30.9% to 24.6% between 1995 and 2004, with severe deprivation reduced from 6.8% to 5.2% (Ministry of Social Affairs, 2007 p. 19). However, a closer look at the results revealed the failure to tackle poverty in post-war Lebanon. Measures of educational deprivation improved by default: an older generation of Lebanese, among whom illiteracy was more common, had passed away (p. 25). Great inequalities in educational provision and intense competition for more prestigious private education persisted. The report revealed failings in areas that had been a priority of post-war reconstruction: The increased usage of bottled water as the main source of drinking water from 5.1% to 32.0% suggested that the provision of drinking water was insufficient, even after massive investment in the sector (p. 25, FN 14). Income-related indicators actually show a rise in deprivation: The dependency ratio – the number of persons employed in proportion to the number of household members – increased from 25.0% to 31.6%, reflecting the limited availability of employment opportunities (p. 26). The first report that used reliable measures of household income to measure poverty in Lebanon found that 28% of the Lebanese population lived in poverty in 2004, while nearly 8% lived in extreme poverty (Laithy, et al., 2008 pp. 1, 4). This confirmed the impression of earlier estimates in the 1990s.

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<sup>140</sup> Banque du Liban, *Bulletin Trimestriel* (BdL: Beirut, various issues).

<sup>141</sup> Data downloaded from the Banque du Liban website, available at: <http://www.bdl.gov.lb/edata/index.asp>

Persistent poverty and inequality in income and opportunities provided the continued basis for clientelist practices. Hariri continued expanding his foundation, opening new health centres. He also charged Bassil Fulayhan – the architect of the second neoliberalisation drive 2000 to 2004 – with developing a coherent government strategy to create “social safety nets” for Lebanon’s poor.<sup>142</sup> The initiative was cut short by Hariri stepping down as prime minister in September 2004. However, it indicates that Hariri was thinking of creating more formal mechanisms of providing “social safety nets” which could replace the crude clientelism of Lebanon’s existing “service ministries”. Such thinking was in tune with developments in neoliberal thought. The severe social crises resulting from developing country debt crises and subsequent structural adjustment programmes in the 1980s and 1990s had led to the realisation among international financial institutions such as the World Bank that the “losers” of neoliberal globalisation had to be caught in a “social safety net” to ensure the continued legitimacy of neoliberal restructuring (World Bank, 2005). “Trickle down” was not considered sufficient any more. At the same time, the basic pillars of neoliberal policy reform remained untouched. A well-informed economist such as Bassil Fulayhan would have been aware of this change in discourse. Of course, one can only speculate whether the aid mechanisms put in place by the billionaire-politician would have amounted to a social safety net that would provide aid according to clear rules and impersonal criteria, or whether it would have simply replaced the former militia leaders’ patronage with a clientelistic machine controlled by the Hariri himself.

### **6.3. The political sociology of rent-creation 2000-2004**

Rafiq Hariri’s second neoliberalisation drive between 2000 and 2004 was marked by the struggle between Hariri and his technocrats against former militia leaders and the military and intelligence establishment. The different types of elites followed different economic logics: creating rents for the new contractor bourgeoisie or appropriating rents as patronage resources respectively. The struggle over the restructuring of the

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<sup>142</sup> Adib Nehmeh reports of a World Bank workshop assembled by Fulayhan in June 2004 to bring together local experts on social welfare and to discuss “social safety nets”. Interview with Adib Nehmeh, Beirut, 22<sup>nd</sup> February 2008. World Bank, 2004 pp. 15-16.

state also continued. Rafiq Hariri and his technocrats sought privatisation of state-controlled enterprises, trade liberalisation, the replacement of clientelist “service ministries” with “social safety nets” outside the control of political rivals, continued control of debt management, and an intensification of the Solidere project. Former militia leaders – especially Speaker Nabih Birri – fought against privatisation. President Emile Lahud opposed the privatisation of the mobile phone network because state control over this cash cow conformed to his neo-Shihabist vision of a “strong” state. Between 1992 and 1998, such rivalries had already occurred over Hariri’s first neoliberalisation drive. However, they had played out in relative concord between the different leaders because government finances were not yet at a crisis point and because Saudi-Syrian and US-Syrian concord mandated cordial relations and compromise within Lebanon’s confessional elite cartel. This changed with the developing US-Syrian and Saudi-Syrian rift, which gave intra-elite competition over the economy a new edge. This explains the shape of Hariri’s second neoliberalisation drive from 2000 to 2004. Hariri managed to salvage two rent-creation mechanisms, which he had put in place and which he benefited from through his investment in finance and construction: government debt and reconstruction. The Paris II conference, at which Saudi Arabia and France came to the rescue of an ailing Lebanese economy was the greatest success during these years. The rent-creation mechanisms that Hariri attacked tended to be controlled by his political opponents: spending of service ministries and state-controlled enterprises. Trade liberalisation represented an attack on the remaining privileges of the pre-war bourgeoisie. He was only moderately successful in his attacks. He did maintain control of government debt-management, salvaged the Solidere project, and managed to restructure some state-owned enterprises, such as MEA. However, widespread privatisation eluded him. Similarly, he never managed to cut spending to the extent he had wanted to.

Syria’s blockade of neoliberal reforms in Lebanon reveals the attitude of Bashar al-Assad’s regime to neoliberal economic reform. The young president’s initial concern with “modernisation” and his promotion of technocratic protégés seemed to chime with Hariri’s neoliberalism. In August 2000, Assad had signed a decree allowing three

Lebanese banks to operate in Syrian free-zones.<sup>143</sup> In September, Hariri publicly encouraged investment in Syria.<sup>144</sup> In November 2000 Hariri concluded an economic agreement with Syria, which included promises to bring the two countries' trade and banking laws in line with WTO rules.<sup>145</sup> However, rising US pressure on Syria led to a slow-down in economic reform. Key Syrian policies such as licensing foreign banks were deemed too potentially destabilising at a time of mounting international pressure from the United States (George, 2003 p. 169). Economic reform was considered a threat to the regime on several levels. Financial crises in countries such as Algeria and Egypt in the 1980s meant they had to submit to IMF "conditionality", a form of dependency that Syria had avoided. Furthermore, Hafiz al-Assad had rejected the economic integration between Israel and its Arab neighbours which was implicit in Shimon Peres' vision of a "New Middle East". He felt this would result in dependency on the West and Israeli hegemony in the region (Seale, 2000 pp. 75-76). Yet Hariri's vision of making Lebanon "competitive" in the "New Middle East" was premised on exactly such regional integration of Arab states and the Jewish state. Hafiz al-Assad's son Bashar shared his father's cautious attitude towards international dependency. A second fear related to the domestic effects of rapid economic reform. Neoliberal market reforms were set to endanger the "populist" bargain that underpinned state-society relations in Syria and that was designed to co-opt workers, the urban middle class, and peasants (Ayubi, 2001 pp. 329-392). Finally, privatisation and market reforms in Syria tended to benefit "cronies" of the regime. This created tension between established and rising factions of the bourgeoisie. For instance, the rise of the "awlad al-sulta" – children of regime figures who had built up business empires – was resented by Syria's established commercial and industrial bourgeoisie (Ismail, 2009). The Bank al-Madina scheme appears to have been part of the profiteering by members of the Syrian regime (see appendix 14). Bashar al-Assad was a "moderniser" who sought to open up Syria's economy. However, regime maintenance was the overriding concern and in 2002, economic reform was halted. The regime similarly regarded Hariri's neoliberalisation in Lebanon as a threat: Damascus rejected those measures that would weaken Syria's closest allies in Lebanon. The regime was likely to have been

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<sup>143</sup> *MEI*, 1<sup>st</sup> September 2000, p. 14-15.

<sup>144</sup> *MEI*, 15<sup>th</sup> September 2000, p. 6.

<sup>145</sup> *MEI*, 24<sup>th</sup> November 2000, p. 11.

suspicious of US\$400 million in planned investments that Hariri and other Saudi investors had announced prior to Bashar al-Assad's inauguration in June 2000 (Blanford, 2006 p. 76).

In designing the policies of the first neoliberalisation drive between 1992 and 1998, Hariri had relied on a "first generation" of technocrats drawn from employees of his construction company Oger and from his banks. They included key figures such as Fadl Shalaq and Fu'ad Siniura. The policies of the second neoliberalisation drive of 2000 to 2004 were developed by a "second generation" of Hariri technocrats, most importantly Bassil Fulayhan who was minister of economy, trade and industry between 2000 and 2003. The comparison of these two generations of technocrats reveals different ways in which neoliberal technocratic expertise can be "political" and the different ways in which such technocratic elites are "politicised" (see appendix 15). The first generation technocrats were more obviously "political" because they had been Hariri's employees and some of them had even had a close personal relationship with him. The best example is Fu'ad Siniura's joint political activism with Hariri in the Arab Nationalist Movement. This gave them a greater awareness and willingness to conceive of Hariri's neoliberal project in both economic and political terms. The second generation of technocrats was drawn from the IMF and World Bank. They considered themselves more purely "technocratic" and "non-political". Initially, they tended to be interested in neoliberalism as an economic rather than political project. Few of them actually joined Lebanese politics as part of the "Hariri camp", in the way the first generation technocrats had. However, because they were pushing neoliberalism as an economic project, they inevitably became associated with Hariri's political project. This meant that, eventually, they came to openly associate themselves with the billionaire politician.

After becoming prime minister for the first time in 1992, Hariri had tried to reform the government bureaucracy by removing 5,600 civil servants, a move which was

considered by some politicians an attack on their personal power-base.<sup>146</sup> 3,000 government employees were indeed removed, but further “retrenchment” proved impossible (World Bank, 2005 pp. 29, FN 44). Hariri therefore drove forward the hiring of Lebanese finance experts who had experience in international financial institutions. They were to bolster the institutions that Hariri relied on to develop and implement neoliberal rent-creation mechanisms. One of the new technocrats was Muhammad Shatah. He left the IMF in 1993 to become vice-governor of the central bank and he describes Hariri’s thinking thus:

“Of course Hariri was a product of the Lebanese diaspora, worked in Saudi Arabia. And he realised that Lebanon was, in a way... there were two Lebanon, there were two countries: There were Lebanese abroad, in New York, in London, IMF, Riyadh and Dubai. And there was the Lebanon that stagnated for 15 years. Professionals had left the country and the bureaucracy had hardly any skills. So it was natural for him to look for those types. And he... in 92, 93 he was looking for... every time there was a vacancy... again, central bank is important, central bank, a governor and four vice governors, and he reached out and hired people basically from abroad, ready to come back or who had just come back.”<sup>147</sup>

Just like the Gulf city had been the “benchmark” for Hariri’s vision of neoliberal urbanity, the finance expert from the IMF or the World Bank was his benchmark for a successful bureaucracy. Necessarily, this would entail the neoliberalisation of the state. Initially, the main function of the second generation technocrats in the 1990s was not overtly “political” in the sense of occupying cabinet posts, it was “technical” in that they strengthened the ministries and agencies of the “right hand” of the state. They improved the functioning of the ministry of finance, the prime minister’s office, and the central bank, institutions which were the instruments of for implementing neoliberal rent-creation mechanisms.

Since Hariri had failed to reform the civil service by sacking employees, he encouraged the creation of parallel structures with the help of the World Bank and the United Nations Development Programme (UNDP). The initiative for implanting young Lebanese technocrats working in international financial institutions in the Lebanese

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<sup>146</sup> EIU, *Country Report: Lebanon*, 1<sup>st</sup> Quarter 1994, p. 12.

<sup>147</sup> Interview with Muhammad Shatah, Beirut, 13<sup>th</sup> February 2008.

state machinery came from Hariri-ally Fu'ad Siniura.<sup>148</sup> Hariri's economic advisor, Nadim Munla, helped to recruit several Lebanese who were working at the IMF. Munla provided a link between the two generations: he had worked as a senior manager at the Hariri-owned Méditerranée Investors Group in the 1980s before joining the IMF.<sup>149</sup> In the early 1990s, Munla then returned to Lebanon as an advisor to Hariri and Fu'ad Siniura. At that time he started recruiting other Lebanese finance experts. For instance, Munla persuaded Bassil Fulayhan to return to Lebanon to assist the reform of the finance ministry. Fulayhan had been educated at AUB and Yale and obtained a PhD from Columbia University before becoming an advisor to the Saudi executive director at the IMF in 1988.<sup>150</sup> In 1993 Munla invited him to head a UNDP-financed project at the finance ministry, which was concerned with improving customs administration and tax collection, managing the public finances and debt.<sup>151</sup> Fulayhan then designed a project financed by the UNDP and the World Bank, the aim of which was to reform customs administration, the cadastre and land registration, and tax administration.<sup>152</sup> While Munla was overtly "political", most other technocrats who returned to Lebanon sought to avoid "politicisation". Mazin Hanna – himself a second generation technocrat who assisted Fulayhan in relations with the IMF – stresses that Fulayhan regarded his role as non-political and sought to distance himself from any factions:

“...a person like Bassil Fulayhan would not have worked in Lebanon at the time had he not had a UN umbrella to work under. So you had people who were careful to come into the administration but work under a project [...] I mean, obviously [the Lebanese] administration could not afford them. Second, they were not political people, so they did not want to be politically labelled as this group or that group. Working for the World Bank or the UNDP, was... you know, you become a kind of consultant, international consultant, without the stigma of being [with] this or that person. Because these projects would continue regardless of who's prime minister and who is minister, etc.”<sup>153</sup>

<sup>148</sup> Interview with Fu'ad Siniura, former finance minister of Lebanon, London, 30<sup>th</sup> November 2010.

<sup>149</sup> The biographical information on Nadim Munla is derived from his CV, published on websites advertising speaking engagements with Munla. Website of Shafik Gabr, available at [http://www.gabr.com/layout1/speeches/speeches\\_97\\_1.html](http://www.gabr.com/layout1/speeches/speeches_97_1.html), viewed on 14<sup>th</sup> July 2011. MIT Arab Alumni Association, available at: [http://www.mitpanarabconf.org/wp-content/uploads/2009/08/2002\\_Conference.pdf](http://www.mitpanarabconf.org/wp-content/uploads/2009/08/2002_Conference.pdf), viewed on 14<sup>th</sup> July 2011.

<sup>150</sup> According to Bassil Fulayhan's CV, published on the website of the Bassil Fuleihan Foundation, available at <http://www.basilefuleihanfoundation.org/cv.htm>, viewed on 14<sup>th</sup> May 2010.

<sup>151</sup> Interview with Mazin Hanna, Beirut, 3<sup>rd</sup> March 2008.

<sup>152</sup> Interview with Mazin Hanna, Beirut, 3<sup>rd</sup> March 2008.

<sup>153</sup> Interview with Mazin Hanna, Beirut, 3<sup>rd</sup> March 2008.

Hanna argues that Fulayhan “admired Rafiq Hariri but he admired him at a distance” and that “in 92, 93, 94, 95, Bassil was not perceived as a Hariri person”.<sup>154</sup> Despite this desire for “insulation”, Fulayhan’s work at the finance ministry was deeply political: the civil service reforms that he implemented were so closely linked to Hariri that he became associated with the billionaire’s camp by default. Fulayhan caught Hariri’s attention in 1994 and the prime minister started consulting him on policy issues.<sup>155</sup>

When Hariri stepped down as prime minister in 1998 technocrats such as Fulayhan came under pressure to step down due to their association with the businessman.<sup>156</sup> According to Hanna, the new finance minister George Qurm did not trust Fulayhan because of his association with Hariri. Fulayhan was made to feel “uncomfortable” and was urged to resign. Other second generation technocrats also resigned, such as Hanna himself. The distrust of the al-Huss administration is a sign that the second generation technocrats had become associated with Hariri, even if they flaunted their technocratic and non-political credentials and hid under the “umbrella” of the UNDP or World Bank. The second generation technocrats came to be associated with the “Hariri camp” not because of an explicit alliance with the businessman-prime minister but because they were pushing the neoliberal restructuring of the state, a project that strengthened Hariri. This distance to Hariri initially distinguished most second generation technocrats from first generation figures such as Siniora or Shalaq, who had been close to Hariri from the start. Ironically, the rejection by Qurm and al-Huss pushed Fulayhan to ally himself politically to Hariri. After resigning from the finance ministry, Fulayhan started working directly for Hariri. As Hanna puts it: “Bassil took a leap at the time, of moving from this, if you want, international consultant profile that he had, into a more political, close collaborative to Hariri.”<sup>157</sup>

Fulayhan and other second generation technocrats were crucial in developing and implementing the second neoliberalisation drive after 2000. While Hariri was out of

<sup>154</sup> Interview with Mazin Hanna, Beirut, 3<sup>rd</sup> March 2008.

<sup>155</sup> Interview with Asma Fulayhan, published in *Executive Magazine*, May 2006, available at <http://www.executive-magazine.com/getarticle.php?article=8204>, viewed on 14<sup>th</sup> May 2010.

<sup>156</sup> Interview with Mazin Hanna, Beirut, 3<sup>rd</sup> March 2008.

<sup>157</sup> Interview with Mazin Hanna, Beirut, 3<sup>rd</sup> March 2008.

office from 1998 to 2000, he did not put forward concrete economic policy proposals. Instead, he simply promised to put forward a plan developed by “a coherent, unified, and enlightened economic team that does not yearn for the obsolete policies of the 1950s and 1960s, and is capable of confidently and vigorously interacting with the rest of the world” (Hariri, 1999 p. 67). This describes the second generation technocrats well, especially Fulayhan. Fulayhan stood on Hariri’s Beirut list in the 2000 parliamentary elections and was minister of economy and trade from 2000 to 2003. In this capacity he managed relations with the IMF, the EU, and the WTO.<sup>158</sup> Fulayhan was also the main architect of the policy proposals presented to the Paris I and Paris II meetings in 2001 and 2002, which provided the framework for Hariri’s neoliberalisation drive 2000 to 2004.<sup>159</sup> Fulayhan was the main source of ideas for the second neoliberalisation drive from 2000 to 2004 and he was the technocrat mediating between the Lebanese and the international scene.

A final observation on these second generation technocrats: Sectarian identity seems to have been less important than for the first generation. Bassil Fulayhan was a member of Lebanon’s small Protestant community. He sustained heavy burns from the bomb that killed Rafiq Hariri in February 2005. While he was fighting for his life in a French hospital, the business magazine *Lebanon Opportunities* published a plea for his recovery, which contrasts Fulayhan’s rise through expertise with the cronyism of first generation technocrats:

“Praying for Basil Fulayhan: Professor, economist, consultant, politician, technocrat, friend, and now warrior. He never worked for Saudi Oger, not a Sunni, not from Saida, didn’t go to school with Rafik Hariri, but was an academic and consultant of an international organisation. Still, he was the right hand man of Hariri, and his economic confidant. Basil defied much of the mythical conventional wisdom and climbed to the top. His political career was almost a miracle, breaking the confessional taboo, to become one of the top ministers in the country.”<sup>160</sup>

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<sup>158</sup> Mazin Hanna, Beirut, 3<sup>rd</sup> March 2008. EIU, *Country Report: Lebanon*, April 2002 (electronic version). See the website of the Bassil Fulayhan Foundation, available at <http://www.basilefulayhanfoundation.org/cv.htm>, viewed on 14<sup>th</sup> May 2010.

<sup>159</sup> According to the website of the Bassil Fulayhan Foundation, available at <http://www.basilefulayhanfoundation.org/cv.htm>, viewed on 14<sup>th</sup> May 2010.

<sup>160</sup> *Lebanon Opportunities*, March 2005, p. 9.

#### 6.4. Assassination

Rafiq Hariri's time as prime minister after 2000 was highly frustrating for the businessman-politician. While he managed to avoid financial crisis and to restart reconstruction, his opponents in the "troika" were blocking privatisation and expenditure cuts. More ominously, the rising tension between the US and Syria was undermining Hariri's relationship with the regime in Damascus. The Syrian regime was increasingly suspicious of Arab regimes allied to the US – including Saudi Arabia. Hariri was being drawn into the confrontation between Syria and the US on the international level and between Syria and the opposition on the Lebanese level. Hariri remained uncommitted to either side, preferring to keep his options open. However, the Syrian regime associated Hariri with the Franco-US-sponsored UN Security Council resolution 1559 of 2<sup>nd</sup> September 2004, which opposed the extension of Emile Lahud's term, called for a withdrawal of Syrian forces, and for the disarmament of Hizballah. In the eyes of the Syrian regime, Hariri had crossed the line and become an enemy. After Hariri's death, one of his aides described Syrian suspicions towards Rafiq Hariri as "Alawite paranoia", suggesting it was both sectarian and irrational (Blanford, 2006 p. 94). The dynamics of conflict between Hariri and the Syrian regime in the run-up to his assassination in February 2005 allow us to examine this notion further.

The source of Syrian "paranoia" was the increasing US pressure on the regime. Neoconservative plans to remake the Middle East by bringing about "regime change" threatened the Ba'thist rulers in Damascus. US policy presented its Arab allies Saudi Arabia, Egypt and Jordan with a dilemma: While they were opposed to regime change in principle, they had to support Washington's policy in the region because of their economic and military dependence on the US. The Syrian regime grew increasingly suspicious of America's Arab allies. The consolidation within the Syrian regime led to a reliance on "Alawi" networks. Sunni stalwarts of the regime such as 'Abd al-Halim Khaddam, Hikmat Shihabi, and Mustafa Tlas were sidelined. 'Alawi networks surrounding the Assad family were gaining greater influence, including Bashar's siblings Maher and Bushra, as well as the latter's husband Assaf Shawkat (Blanford,

2006 pp. 54-55; Leverett, 2005 p. 29). The reliance on family, regional, or sectarian networks is not necessarily a sign of a sectarian ideology but can be driven by the need to consolidate power within a small network of military officers who trust each other (van Dam, 1996; Batatu, 1978).

In Lebanon, the Damascus regime worked to strengthen its closest allies and to defeat the opposition. The announcement that Lahud's term would be extended beyond the constitutional end of his presidential term in September 2004 was only made in August.<sup>161</sup> Syria's closest allies supported the move, including interior minister Elias Murr and his father Michel. The predominantly Christian opposition opposed the extension. Ever careful to position himself favourably, Walid Junblat stated that he "does not favour" another term for Lahud but would accept it if it were "dictated by regional and political conditions".<sup>162</sup> The Syrian regime appears to have been fairly confident that it could control the Lebanese arena by keeping Lahud in the presidential palace. In late August Birri and Hariri were individually summoned to Damascus. As has been widely reported since, Bashar al-Assad told Hariri in no uncertain terms that the alternative to extending Lahud's term would be chaos in Lebanon (Blanford, 2006 p. 100). The Lebanese parliament passed the constitutional amendment on 3<sup>rd</sup> September 2004. Only 29 of 125 deputies voted against the extension. Hariri's block re-elected Lahud but most MPs subsequently refused to congratulate the president.<sup>163</sup> Syria had flexed its muscle and displayed its power. It was the combination of Lebanese opposition with international pressure which had induced "paranoia" in Damascus. In Syria's eyes, it was Hariri who provided this link, explaining the wrath towards the Lebanese prime minister.

One day before the constitutional amendment was voted through in the Lebanese parliament, the UN Security Council had adopted resolution 1559. The resolution had been introduced by the United States and France. The Security Council declared its support for "a free and fair presidential election in Lebanon conducted according to

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<sup>161</sup> EIU, *Country Report: Lebanon*, October 2004 (electronic version).

<sup>162</sup> EIU, *Country Report: Lebanon*, July 2004 (electronic version).

<sup>163</sup> EIU, *Country Report: Lebanon*, October 2004 (electronic version).

Lebanese constitutional rules devised without foreign interference or influence”.<sup>164</sup> In a clear reference to Syria, it also “called upon all remaining foreign forces to withdraw from Lebanon”. The Council called for the “disbanding and disarmament of all Lebanese and non-Lebanese militias”, a reference to Hizballah and Palestinian armed factions. The resolution represented a clear rejection of Syrian dominance in Lebanon and of the principle of armed resistance to the remainders of Israeli occupation on the Shiba’ Farms. After the UN had been used to legitimise the US-led invasion of Iraq in 2003, Damascus must have felt that the international body was now being used to target Ba’thism in Syria. What is worse, while France had opposed intervention in Iraq, Chirac was now one of the sources of pressure. It is easy to see why the Syrian regime saw Hariri’s hand behind this. Chirac and Hariri had maintained close relations since the 1980s. Hariri was one of the president’s Middle Eastern confidantes who shaped his policy in the region. Chirac had organised the Paris II meeting on Hariri’s behalf. When Chirac turned against Syria, the regime blamed Hariri.

Chirac had been the driving force behind resolution 1559. American neoconservatives had tried to push for action against Syria but even as late as spring 2004 the Bush administration was frustrating hardliners in Congress by only applying the Syria accountability act (SALSA) in a piecemeal fashion (Mearsheimer and Walt, 2006 p. 277). It was Chirac who persuaded the US to use the Lebanese issue to act against Syria. According to interviews with French diplomats conducted by the International Crisis Group (ICG), Chirac used a meeting with Bush at the G8 summit in June 2004 to push for joint action against Syrian meddling in Lebanon (International Crisis Group, 2005 p. 9). The policy was being questioned within the French diplomatic corps but the diplomats interviewed by the ICG pointed to the close relations between Chirac and Hariri as the source of the initiative. Interviewed by journalist Nicholas Blanford, former army military intelligence chief and Hariri advisor Johnny ‘Abdu admitted that Hariri had used his influence with Chirac to “put pressure on Syria not to extend Lahud’s mandate” (Blanford, 2006 p. 104). However, ‘Abdu maintains that Hariri was only interested in a single element of resolution 1559, namely to prevent the extension

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<sup>164</sup> UNSC, Resolution 1559, 2<sup>nd</sup> September 2004, available at <http://www.un.org/News/Press/docs/2004/sc8181.doc.htm>.

of Lahud's mandate. How the demand for Syrian withdrawal entered the resolution is unclear. The call for Hizballah's disarmament was included by the United States for whom the Shi'i militia was the main concern. (International Crisis Group, 2005 p. 9). Johnny 'Abdu would later claim that Syrian withdrawal and Hizballah's disarmament were not Hariri's "priorities" at the time (Blanford, 2006 p. 104). Hariri took a careful stance on resolution 1559. He did not condemn its content, arguing that the resolution's "implementation should await the proper timing" and "it should be implemented after peace [with Israel]".<sup>165</sup> Regarding the reasons for the French stance vis-à-vis Syria and Lebanon, Hariri hinted at the importance of Franco-US relations in determining Paris' policy:

"With regard to both the Lebanese-French and Syrian-French issues, some elements were inexistent a year ago. The change was dictated by some factors related to France's situation and its international relations."<sup>166</sup>

Hariri in effect claimed that Chirac was more aggressively targeting the Syrian regime and Hizballah than Hariri had intended. Hariri allies and aides interviewed by Blanford claim that Hariri had warned Bashar al-Assad of the resolution and offered his help to tone it down and that he urged Chirac at the end of September 2004 not to push for its implementation to ease pressure on Syria (Blanford, 2006 pp. 104, 109). Bashar al-Assad was not convinced. The Syrian regime would later claim that Hariri had drafted the resolution on board his yacht in Sardinia, together with Junblat-ally Marwan Hamada and Lebanon's former minister of culture Ghassan Salama, a claim denied by Hariri's aides and allies interviewed by journalist Nicholas Blanford (Blanford, 2006 p. 104).<sup>167</sup> Hariri had become the focal point of Syrian "paranoia", the hinge that connected the domestic Lebanese scene with US and French pressure on Syria – and Hizballah. Hariri's prodding was not the only reason for Chirac's desire to pressure Syria over Lebanon. Resolution 1559 provided an opportunity to mend relations with

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<sup>165</sup> Rafiq Hariri interview with *al-'Arabiyya* TV, 15<sup>th</sup> December 2004, available at <http://www.rhariri.com/news.aspx?ID=2985&Category=Interviews>, viewed on 27<sup>th</sup> January 2010.

<sup>166</sup> Rafiq Hariri interview with *al-'Arabiyya* TV, 15<sup>th</sup> December 2004, available at <http://www.rhariri.com/news.aspx?ID=2985&Category=Interviews>, viewed on 27<sup>th</sup> January 2010.

<sup>167</sup> 'Abd al-Halim Khaddam would later claim that Assad's suspicions against Hariri stemmed from a disinformation campaign by the security establishment around Lahud, masterminded by Jamil Sayyid. 'Abd al-Halim Khaddam interview with *al-'Arabiyya* TV, 8<sup>th</sup> January 2006, available in translation at [http://yalibnan.com/site/archives/2006/01/full\\_text\\_of\\_kh.php](http://yalibnan.com/site/archives/2006/01/full_text_of_kh.php), viewed on 2<sup>nd</sup> August 2010.

the US after the acrimonious fall-out over Iraq. Chirac was angry with Bashar al-Assad because French companies had lost out on a gas deal in Syria and Damascus' allies in Lebanon were blocking Hariri's neoliberalisation strategy, which France had made a condition for dispensing Paris II aid.<sup>168</sup>

The political tension was not only felt on the level of elite politics but also led to popular mobilisation. Protests organised by the GCWL labour confederation in May 2004 turned into a violent confrontation with the army in Hay al-Sullum in Beirut's southern suburbs.<sup>169</sup> The death of five protesters led to mutual recriminations among Lebanon's politicians, accusing each other alternatively of mobilising the protesters or seeking to discredit the army. In November 2004, a demonstration of 3,000 protesters demanding an end to Syrian control was followed by a much larger gathering of 100,000 people demonstrating against UN Security Council resolution 1559.<sup>170</sup> The popular mobilisation sharpened tension between the two camps. The municipal elections of May 2004 provided an interesting gauge of Hariri's popularity and the reception of his ambiguous strategy vis-à-vis Syria among Lebanese voters.<sup>171</sup> Hariri managed to organise a joint electoral list with Salim al-Huss and Tammam Salam in Beirut. The "Beirut Unity List" duly won all 24 seats in the capital but a low turnout of only 23% undermined the image of victory. In his hometown of Sidon a list backed by Nasserite MP Mustafa Sa'd won all 21 seats on the council, defeating Hariri's list. This defeat in Sidon and the lacklustre victory in Beirut show that Hariri's ambiguous stance towards Syria did not pay out at the ballot box and that voters appeared disappointed with the prime minister's record. This stands in sharp contrast to the lionisation of Hariri just eight months later, when his assassination was followed by popular protests against Syrian domination.

Hariri refused to remain in office after the extension and was replaced with 'Umar Karami, the ageing Tripoli za'im. Security and defence portfolios were taken by

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<sup>168</sup> EIU, *Country Report: Lebanon*, October 2004 (electronic version). International Crisis Group, 2005 p. 26.

<sup>169</sup> EIU, *Country Report: Lebanon*, July 2004 (electronic version).

<sup>170</sup> EIU, *Country Report: Lebanon*, January 2005 (electronic version).

<sup>171</sup> EIU, *Country Report: Lebanon*, July 2004 (electronic version).

politicians strongly associated with Syria. The north-Lebanese Christian za'im and Assad-ally Sulaiman Franjiyya became interior minister. Karami installed his ally Iliyas Saba in the finance ministry. The mood in the country grew much darker when Marwan Hamada was targeted in a bomb attack in October. This was linked to his outspoken opposition to the extension of Lahud's term and his vote against this measure. Hariri still maintained an ambiguous position vis-à-vis Syria and the opposition. In December 2004 the "Bristol Gathering" brought the opposition together, including the Lebanese Forces, 'Awn's movement, Qurnat Shihwan, and Walid Junblat.<sup>172</sup> In a joint declaration they demanded an end to Syrian interference in Lebanese domestic affairs and the replacement of the Karami administration with a wholly neutral government before the elections of May 2005. The meeting was the most significant expression of a unified opposition thus far. Particularly Junblat's leading role was important because he gave the movement depth beyond the Christian community. Junblat had been infuriated by the assassination attempt of his ally Marwan Hamada. Hariri did not participate in the meeting although some members of his parliamentary bloc did. They included Bassil Fulayhan whose attendance signalled the complete politicisation of this initially "apolitical" technocrat (International Crisis Group, 2005 pp. 13, FN 97). Possibly, Hariri hoped to act as a "bridge" between the Syrian regime and the opposition. He sought to gain a position of strength by once again sweeping the field in parliamentary elections, scheduled for May 2005. Again he provided benefits to supporters, as exposed in the "olive oil scandal", which saw Hariri's charities distributing olive oil in the run-up to the election (Blanford, 2006 p. 4). However, the electoral law presented by interior minister Sulaiman Franjiyya on 27<sup>th</sup> January 2005 was designed to curtail Hariri's chances by splitting Beirut into three districts and incorporating the surrounding villages into the Sidon constituency (International Crisis Group, 2005 p. 13). These measures diluted Hariri's predominantly Sunni vote in the two cities. The electoral law is said to have moved Hariri to finally throw in his lot with the opposition. Yet he never had the chance to do so: on 14<sup>th</sup> February 2005, he was assassinated in a massive bomb blast near Beirut's Corniche.

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<sup>172</sup> EIU, *Country Report: Lebanon*, January 2005 (electronic version).

The discussion of events leading up to Hariri's assassination illustrate that Syrian "paranoia" was not necessarily an irrational response to the threat to Damascus' position in Lebanon. Rafiq Hariri had become the "hinge" that connected the domestic opposition with French and US pressure, epitomised by resolution 1559. This perspective casts doubt on the view that Hariri's assassination had simply been a "Shakespearean tragedy of misunderstanding" (Blanford, 2006 p. ix). Hariri may or may not have been the author of resolution 1559 but at the very least, his stance fostered mistrust in Damascus. His offers to tone down Chirac's campaign to pressure Syria must have left the Syrian regime with the impression that Hariri was able to tighten or loosen the international screw on Syria. If Hariri was unaware of the Syrian perception of him as a threat, this was due to the sidelining of his closest allies in Damascus, namely Khaddam and Shihabi, as well as Kan'an not being in charge of Lebanon anymore. However, while this sense of threat constitutes a motive for Syria to assassinate Hariri, it is not proof. A whole raft of questions remains open. Cui bono? Defenders of Syria point out that Damascus was a loser of the Hariri assassination: the regime was faced with popular protests in Beirut, was forced to withdraw its troops from Lebanon, and came under scrutiny in a UN international investigation.

The UN International Independent Investigation Commission (UNIIC) was established by the UN Security Council on 7<sup>th</sup> April 2005 to investigate the crime. Later, the Special Tribunal for Lebanon (STL) was set up in May 2006. It is mandated with prosecuting the perpetrators of the Hariri assassination as well as of later political assassinations of anti-Syrian figures. The mixed Lebanese-international court is a legal innovation because it represents the first time that an international tribunal tries a crime under national law. This is because the crime – a political assassination – does not fall under international jurisdiction which usually deals with issues such as crimes against humanity. The rationale for establishing a hybrid court with international participation was that the terrorist acts of 14<sup>th</sup> February 2005 constituted a threat to international peace and security (Shehadi and Wilmshurst, 2007 p. 8). The UNIIC investigation and the STL have come in for tough criticism. The legal innovation of using an international tribunal to prosecute a political assassination was regarded as an example of politicised international justice. The investigation and the tribunal are clearly

instruments of the US, France, and Saudi Arabia as well as March 14 to pressure Syria and Hizballah. However, defenders of the court have pointed out that it remains independent of any governments (Shehadi and Wilmshurst, 2007 p. 8). The independence of UNIIIC and STL has been questioned by those targeted by the investigation: the Syrian regime and Hizballah. Right from the start, the investigators were not shy in pointing fingers but they moved their focus from Syria to a “criminal network” and eventually to Hizballah. The shift in focus coincided with a thaw of relations between Syria and the West, raising suspicion about the political nature of the STL. This, together with the use of discredited witnesses undermined the credibility of the process. Hizballah further attacked the tribunal by presenting a video allegedly recorded by an Israeli drone which surveyed the assassination site prior to the crime, and by arguing that crucial telecommunications evidence linking Hizballah operatives to the crime had been manipulated by an Israeli spy network.<sup>173</sup> Despite the serving of the indictments, then, the identity of Hariri’s assassins remains undetermined. Even if the four Hizballah operatives are convicted, this leaves a raft of further questions unanswered. Were Syrian authorities aware of the assassination? Were Bashar al-Assad or rival sections of the regime – such as Asaf Shawkat or Maher al-Assad – informed and possibly complicit? Both Syria and Hizballah had very strong motives for assassinating Hariri because of his involvement – however slight – in resolution 1559. While these two parties are therefore the prime suspects, the possibility that the crime was perpetrated by other intelligence agencies cannot be ruled out entirely.

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<sup>173</sup> *Daily Star*, 26<sup>th</sup> August 2011, p. 2. Website of *Al-Jazeera International*, 10<sup>th</sup> August 2010, available at <http://www.aljazeera.com/news/middleeast/2010/08/2010891991920480.html>, viewed on 21<sup>st</sup> November 2011.

### **6.5. Did the United States use neoliberalism to project its power into Lebanon?**

The return to political crisis in Lebanon was driven by rising regional tension. A US-Syrian rift developed due to the shift in US global strategy. This shift mirrored the “second Cold War” in that it reflected US fears of threats from the “third world”, especially the Middle East. The neoconservative project to remake the Middle East culminated in the invasion of Iraq. The resulting US confrontation with Syria also strained relations between Damascus and Riyadh. This breakdown in Saudi-Syrian concord led to rising tension between Hariri and the regime of Bashar al-Assad. The rise in regional tension coincided with the revival of anti-Syrian opposition in Lebanon due to the Israeli withdrawal in 2000. This opposition was primarily Christian, reflecting the exclusion of Christian anti-Syrian leaders from Lebanese politics in the wake of the Lebanese civil war. Damascus became increasingly fearful of Hariri’s position: the Saudi ally could potentially have become the linchpin that could turn his own Sunni community against Syria and could connect the Lebanese opposition and the wider US project of remaking the Middle East.

This was the context in which Hariri launched his second neoliberalisation drive when he returned as prime minister in 2000. He salvaged rent-creation mechanisms that benefited him and other new contractors: government debt management and reconstruction. He also sought to open up new investment opportunities for foreign and Lebanese capital through privatisation, to cut government spending on welfare and the military. Privatisation and the cuts in spending on service ministries undermined patronage instruments of former militia leaders, especially Parliament Speaker Nabih Birri. Cuts in military expenditure represented an attack on the military and intelligence establishment, headed by President Emile Lahud. Since these leaders were among Syria’s closest allies in Lebanon, the neoliberalisation drive was regarded as an attack on Damascus’ position in Lebanon. This renewed liberalisation drive after

2000 was developed and implemented by a “second generation” of Hariri technocrats. While the first generation had been employees of Hariri’s companies, the second generation had been recruited from the IMF in the 1990s and considered themselves “insulated” from Lebanon’s political factions. However, their advocacy of neoliberalism as an economic project necessarily “politicised” them because neoliberal restructuring of state and society strengthened Hariri. Neoliberal restructuring was a political project for him. The second generation technocrats thus drifted into, and were attracted to, the Hariri camp.

A particularly poignant episode was the Paris II conference in 2002. Thanks to donor support, Lebanon avoided financial crisis. The United States refused to endorse an international bail-out of Lebanon, most likely in order to press the Hariri government to move more forcefully against Hizballah. This was something Hariri was not willing to do, at least not then. Significantly, US capital had no direct stake in Lebanon because a class of wealthy Lebanese investors –containing many members of the new contractor bourgeoisie – were in effect mediating between Lebanese finance and global finance. Lebanon avoided financial collapse through a bail-out arranged by France and largely paid for by Saudi Arabia. This was due to long-standing personal alliances between Hariri and the leaders of France and Saudi Arabia

The rising tension between Damascus and Rafiq Hariri led to accusations that the regime was behind his assassination. The real culprits may never be found but references to “Alawite paranoia” (Blanford, 2006 p. 94) misrepresent the attitudes of the ruling clique in Syria towards Hariri as sectarian and irrational. It is plausible to assume that Hariri pushed for UNSCR 1559, although he may have only supported the demand for Syria to cease meddling in the presidential elections, without necessarily supporting calls for Syrian withdrawal or Hizballah disarmament. It is also plausible to assume that members of the Syrian regime felt that the businessman-politician had become too great a threat and sought to teach Lebanon’s political class a lesson. Whoever assassinated Hariri and 22 other people exacerbated the political crisis in the country. The split between “March 14” and “March 8” polarised the country along

sectarian lines, a division that deepened further after the 2006 war of Israel against Lebanon.

## **Conclusions: The Hariri network as an artefact of neoliberal politics**

This study placed Rafiq Hariri's "vision" for Lebanon in its structural context. This context included the reproducible discourses and practices of neoliberalism, international and regional politics, and the politics of sectarianism in Lebanon. The focus on Rafiq Hariri allowed for the "careful mapping of the neoliberal offensive" required to understand "actually existing neoliberalism" in Lebanon (Peck and Tickell, 2002 pp. 381-382). Rafiq Hariri rose from being a fruit-picker in Sidon to construction tycoon, prime minister, Sunni leader, "Mr. Lebanon", and eventually "martyr". On the way he built a network of experts on finance, journalism, engineering, Islam, or social mobilisation. The Hariri network became a formidable force for the realisation of a neoliberal project in all its aspects: economic, political, cultural, and "imperial". The specific shape of neoliberalism in Lebanon arises from the contradictions within the different projects and between them, and from the constraints imposed on Hariri by rival elites and by Syria. Hariri's project was neoliberal but it was shaped by the specific conditions of Lebanon. The Hariri network grew over time and it is an artefact of the businessman-politician's neoliberal project.

Rafiq Hariri was a member of Lebanon's new contractor bourgeoisie that arose in the 1970s, reflecting a change in the country's political economy. Lebanon lost its role as financial intermediary between the Arab East and Western financial markets and an entrepôt for Western consumer goods going to the Arab world. During the civil war from 1975 to 1990, the families that had constituted Lebanon's pre-war commercial-financial bourgeoisie lost their position as the dominant capitalist class to the new contractor bourgeoisie. The latter were Lebanese émigrés who had accumulated great wealth as contractors during the oil boom in the Gulf. Similar processes of class formation were going on elsewhere around the world in the 1980s and 1990s, with established "comprador" or industrial capitalists being eclipsed by new business elites who seized opportunities in construction, media, telecommunications, or finance. In their efforts to deepen neoliberalism, some of these businesspeople sought political office, such as Silvio Berlusconi, Thaksin Shinawatra, or Rafiq Hariri. Others exercised influence in the background, as Carlos Slim did in Mexico.

Many of these new business leaders were “self-made men”, perpetuating the myth that individual initiative allows for social mobility under unfettered capitalism. Rafiq Hariri cast his own rise from poor fruit-picker in Sidon to successful contractor in Saudi Arabia in similar terms, while his detractors see him as merely a target for royal Saudi patronage. Both accounts are true to an extent. Hariri’s success after 1976 followed a string of bankruptcies and business failures due to the vagaries of oil-induced boom and bust in Gulf contracting. Hariri only broke this cycle through his association with Nasir al-Rashid, an engineer from a prominent Saudi family with access to royal contracts. However, without the skills and the initiative to manage highly complex projects, Rafiq Hariri would not have succeeded. Both clientelism and personal qualities are therefore part of the Hariri success story in Saudi business.

Hariri was not the only Lebanese émigré who had become wealthy in the Gulf and returned to Lebanon as an investor and politician. Other examples include Najib Miqati, ‘Issam Faris, and Muhammad Safadi. However, Hariri was the most successful one politically. The reason for surpassing other new contractors in political power, if not wealth, was Hariri’s strong alliance with the Saudi monarchy. No other new contractor could match such political and financial backing from a regional power. Before 1982, Nasir al-Rashid had continued to act as a “gatekeeper” between the king and Hariri. This changed only when Hariri engaged in the clean-up of West Beirut after the Israeli invasion. He got King Fahd to pay for the project, which demonstrated his political usefulness. Hariri then became the Saudi man in Lebanon, engaging in the diplomacy of the Shuf War in 1983, the US-Saudi efforts to sell the 17<sup>th</sup> of May Agreement to Syria’s Hafiz al-Assad, the Syrian-sponsored militia agreement of 1985, the search for a successor to President Amin Gemayel in 1988, and of course the Ta’if conference in 1989. Hariri’s role as the voice of King Fahd and his chequebook gave him access to the top-table where the post-war order was being negotiated.

Hariri was the owner of a French construction company, primarily active in Saudi Arabia but also moving into Lebanon. He was a member of the new contractor bourgeoisie , which also

has to be understood as a type of “elite” in the specific context of Lebanon. The new contractors interacted with other types of Lebanese elites in the context of institutionalised confessionalism. Other elites identified as relevant for our story are Shihabist technocrats, militia leaders, and the Hariri technocrats. The patterns of conflict and cooperation between these different types of elites shaped the neoliberalism in post-war Lebanon. In pursuit of their political and economic agendas, the different political leaders built up social networks around them. Hariri relied on two generations of neoliberal technocrats to develop and implement neoliberal rent-creation mechanisms. This type of dynamic is extremely important in understanding neoliberal politics. The new contractor Rafiq Hariri was well-endowed with the “financial capital” and relied on his technocrats for the “cultural capital” required to realise his neoliberal project.

The patterns of conflict and cooperation between Rafiq Hariri, as one of the new contractors, and the former militia leaders holds the key to answering the question why Lebanon failed to achieve sustained economic growth after 1990. Rafiq Hariri and his technocrats put in place two rent-creation mechanisms: reconstruction and government over-borrowing. Both followed a neoliberal logic: they were designed to make Lebanon more “competitive” in a globalising world. The regional context was the idea of a “New Middle East”, in which the Arab-Israeli conflict would be resolved and the region would become fully integrated into global markets. Middle Eastern neoliberalism meant that Lebanon’s economy was to be opened up to Gulf capital, which was represented by the new contractors or Gulf investors.

The Solidere project was typical of neoliberal urbanism. It realised land rent, municipal governance was disabled due to “exceptional” circumstances of post-war reconstruction, and it created “elite playing fields” and “islands of wealth”. It was based on a reproducible model imported from cities in the US, Europe, and the Gulf. The main beneficiaries were the new contractors – especially Hariri – as well as Gulf investors. Importantly, the idea was not simply due to Rafiq Hariri’s personal “vision” but it was conceived by Saudi and Lebanese businessmen around Hariri, illustrating the importance of elite networks in transmitting neoliberal ideas and practices. For the legal and technical realisation of the project Hariri

relied on technocrats who had previously worked for him, such as Fadl Shalaq at the Council for Development and Reconstruction (CDR), Nasir al-Shama' at Solidere, or Bahij Tabbara as a lobbyist of Lebanese legislators. Former Hariri employees or associates were thus in charge of the institutions that implemented the rent-creation mechanism.

Similarly, government over-borrowing achieved currency stability at the cost of skyrocketing government debt and deepened the “financialisation” of the Lebanese economy. The benefits flowed to banks and holders of deposits. The high concentration of deposits reflected the fact that only a small layer of Lebanese emerged from the civil war with the necessary savings to invest in Lebanese government debt. Likely beneficiaries were first of all the new contractors and to a lesser extent former militia leaders, pre-war bourgeois families, Syrian interests, and Gulf investors. This rent-creation mechanism was not originally conceived as a scam to enrich a financial elite, although this was the outcome. The scheme arose from the desire of central bank governor Michel al-Khuri and acting finance minister Fu'ad Siniura to prevent the rampant speculation against the pound which the two had battled as central bank officials in the early 1980s. Both were Hariri allies and Siniura had run the Hariri-owned Bank Med. Riyadh Salama, a former account manager for Hariri at Merrill Lynch, became central bank governor in 1993. Monetary policy was decided in regular meetings between the prime minister (Hariri), the central bank governor (Salama), and the finance minister (Siniura). Hariri and his technocrats were thus firmly in control of the institutions that conceived and realised government over-borrowing.

Through his technocrats, Hariri controlled the “right hand” of the state – the economic agencies such as the finance ministry and the central bank. The welfare ministries constituting the “left hand” of the state were controlled by former militia leaders and zu'ama allied to Syria who sought to use state welfare as a patronage resource. The rent element in welfare expenditure is the spending that goes to clients rather than the most needy. Bourdieu (1998, p. 2) identified the strengthening of the “right hand” and the weakening of the “left hand” as the typical dynamic of state-restructuring under neoliberalism. This dimension of Lebanese politics is usually neglected in studies of intra-elite conflict, which are often reduced to sectarian squabbling or various alliances with

foreign powers. The state is usually considered “weak” and irrelevant but it was actually a crucial site of struggle in the contest between economic agendas of former militia leaders and the new contractor Rafiq Hariri.

This does not invalidate the importance of sectarianism and international alliances. Economic conflict heightened sectarian and international conflicts in the deepening political crisis after 2000. Rafiq Hariri and his technocrats engaged in a second neoliberalisation drive between 2000 and 2004. They salvaged rent-creation mechanisms that had been cut back under the Huss government from 1998 to 2000: government over-borrowing and the Solidere project. Furthermore, Hariri pushed for the privatisation of state-controlled enterprises. Again, Hariri’s neoliberal logic clashed with the desire for state-funded patronage of the militia leaders. While Hariri sought to open up new investment opportunities which he and other new contractors could take advantage of, the former militia leaders used the jobs and services provided by state-controlled enterprises as patronage instruments. In keeping with his neo-Shihabist project, President Emile Lahud channelled mobile phone revenues to the state rather than private investors. Hariri’s privatisation drive was therefore a threat to the power of former militia leaders who relied on access to state resources – state-controlled enterprises or service ministries – for much of their patronage. By threatening these patronage sources, Hariri threatened the economic basis of leadership of Syria’s allies in Lebanon.

The failure to achieve sustained economic growth requires a political explanation that goes beyond “too much” or “too little” neoliberalism. Some aspects of macro-economic stability were achieved at the cost of destabilising other indicators. Currency stability and low inflation rates were bought by running up large government debt. Privatisation was blocked by former militia leaders and the intelligence and military establishment. Welfare spending was used for patronage and clientelism. These rent-creation mechanisms arise from the patterns of conflict and cooperation between different types of Lebanese elites.

Government over-borrowing led to crowding out, the scarcity of credit available for private sector borrowing. Small and medium-sized businesses and agriculture and industry were hit particularly hard. As a result, unemployment and poverty remained high. The majority of the population – and even much of the middle class – continued to rely on politicians for access to quality health care and education services. This dependency of households on politicians for jobs and public services formed the economic basis of sectarian clientelism. Neoliberal policies provoked various forms of popular resistance. Since neoliberalism is an economic, political, cultural, and “imperial” project, resistance can take a variety of forms. All three examples of resistance discussed here were co-opted or clientelised by Hariri’s elite opponents. Instead of providing alternatives to neoliberalism, popular resistance was merely used by former militia leaders to extract a greater share of neoliberal rent from Hariri.

Firstly, the opposition to the Solidere project was very varied. Some former property owners came together under the leadership of a prominent Sunni Beirut family to reverse the transfer of property rights to Solidere. Urbanists, planners, and architects who opposed Solidere’s plans were often co-opted by the company. They ended up softening the modernist architecture while leaving the economic model of rent-creation intact. Many of the planners and architects who criticised Solidere’s plans came from a similar milieu as the property owners, namely the country’s pre-war bourgeois families. Their objections can therefore partly be read as the use of “cultural capital” in a rearguard action of a class that was on the decline. This explains the criticism of the “vulgarity” of Solidere’s plans to construct a Gulf-style “desert city” or “Wahhabi city”, where tastes are not as refined as in Levantine Lebanon. This condescension was very different from the discourse of the predominantly Shi’i population that had taken refuge in city centre during the civil war. They emphasised “place attachment” to stake their claim to the city centre – not just against Solidere but also against the pre-war owners. Birri and Hizballah managed to achieve a pay-off for those families who were moved out of the Solidere area. The compensation for the “squatters” was a form of sharing neoliberal rent with a former militia leader.

Secondly, the trade unions were the best-organised opposition to Hariri’s neoliberalism in the mid-1990s. However, they were increasingly clientelised by the “populist” parties SSNP

and Ba'th, by Birri's Amal, and also by Lahud's army which had allied with GCWL leader Iliyas Abu Rizq. Finally, the "revolution of the hungry" was an agriculturalist protest against lack of development funds for the Ba'lbik-Hirmil region. It was led by former Hizballah General Secretary Shaykh Subhi al-Tufayli and partly has to be understood as a means to pressure the movement's leadership to return to its more radical roots. The protests took place in the Biqā', which was closely controlled by Syrian forces. There was therefore speculation that Damascus tolerated the protests up to a point and possibly found them useful in clipping Hizballah's wings.

The question whether neoliberalism helps or hinders the reproduction of sectarianism was explored by looking at Hariri's sectarianism, mixing Sunni populism and the largely meritocratic recruitment of technocrats. Hariri initially styled himself as a "national" leader beyond the sectarianism of militia violence. However, from the late 1990s onwards, Hariri sought electoral success by building schools and health centres in predominantly Sunni neighbourhoods. This was a response to rising pressure from former militia leaders, the military and intelligence establishment, and Syria on Hariri's neoliberal rent-creation mechanisms. The strongest expression of Hariri's diminishing room for manoeuvre was the election of army commander and Hariri-opponent Emile Lahud to the presidency in 1998. Hariri used philanthropy to become a specifically "Sunni leader". He thus converted his economic power into symbolic power, the power of group making (Bourdieu, 1991 p. 170). Hariri's philanthropy reproduced the culture of sectarianism. Hariri did not have a "sectarian mindset" – he was not primarily motivated by a desire to strengthen his Sunni community at the expense of other goals – but Lebanon's confessional system disciplined him into sectarian behaviour to win elections, which in turn strengthened his political position in pursuit of neoliberal rent-creation. In order to build up a popular following among Sunnis, Hariri poached activists from the Maqasid association and from the remnants of Nasserite populist movements. Hariri's sectarian populism contrasts with the largely non-sectarian recruitment of technocrats, especially the "second generation", such as Bassil Fulayhan. This conforms to a pattern identified by Wallerstein (2007, p. 40): "cadres" of capitalism are recruited according to universal criteria to ensure a smooth running of capitalism, while ethnic, nationalist, or racist populism are used to disable class-based opposition to the

functioning of capitalism. This does not mean that this is the only possible interplay of neoliberal capitalism and identity politics, but Wallerstein's observation fits Hariri's sectarianism.

The patterns of cooperation and conflict in the triangular relationship between Syria, Saudi Arabia, and Lebanon presented constraints and opportunities for Hariri. In the phase of US-Syrian and Saudi-Syrian conflict from 1982 to 1984, and 2000 to 2005, Saudi influence in Lebanon was curtailed by Syria's greater ability to project military power into the neighbouring state, both through its army and through allied militias. This trumped Saudi Arabia's economic influence and Hariri's room for manoeuvre was curtailed. The period of US-Syrian and Saudi-Syrian concord from around 1988 to 2000 allowed Hariri to assume the post of prime minister in post-war Lebanon. These three phases of US-Syrian and Saudi-Syrian conflict and cooperation were shaped by shifts in US foreign policy.

During the "second Cold War" in the 1980s, the Reagan administration confronted Syria in Lebanon, supporting the Israeli project of concluding a withdrawal agreement that would normalise relations with its northern neighbour, and relying on Saudi Arabia to persuade Hafiz al-Assad to accept the Israeli-Lebanese agreement. The Ta'if accord of 1989 represented a new chapter in US-Syrian relations, reflecting American acceptance of Syria's dominant role in the neighbouring country. From 1993 to 2000 the Clinton administration chose a less intrusive mode of projecting US power into the Middle East. It focused on "institutionalising" global neoliberalism in international regimes of free trade and liberal finance, while pursuing the Arab-Israeli peace process. In Lebanon, the US tolerated Syrian support for Hizballah's "resistance" while Saudi ally Rafiq Hariri pursued an alternative programme of "reconstruction" that was premised on the eventual success of the peace process. US-Syrian concord was shattered by the breakdown of the Syrian-Israeli negotiations in 2000 and the "war on terror" from 2001 onwards. The American desire to remake the Middle East resulted in the invasion of Iraq and raised the pressure on the Ba'thist regime in Damascus. Saudi Arabia combined outward scepticism of the invasion with tacit support for Washington's Middle East strategy. The resulting conflict between Damascus and Riyadh affected Hariri's relations with the Assad regime. Feeling vulnerable in

Lebanon, Syria and its Lebanese allies sought to curtail Hariri's room for manoeuvre, while Hariri's attacks on their economic interests raised alarm in Damascus. In short, Hariri's relationship with Damascus was deeply affected by changes in US Middle East strategy over time.

The way in which Hariri avoided financial crisis in Lebanon is instructive about the role of neoliberalism in US imperial strategy towards Lebanon. Financial crises are the points at which neoliberal power relationships are crystallised. The bail-out at the Paris II conference in 2002 therefore illustrates the secondary relevance of neoliberalism in US imperial strategy vis-à-vis Lebanon. The country was saved from financial crisis by Saudi Arabia and France, acting as "white knights" riding to the rescue of deeply indebted Lebanon. This highly unusual outcome for a financial crisis is explained by looking at the relationship of Lebanon with four parties. Firstly, Lebanon's creditors were highly concentrated and networked to the political elite. The new contractor bourgeoisie and Gulf capital were mediating between Lebanon and global finance. US capital had no direct stake in Lebanon. It was therefore easier to maintain the trust of "the market". Secondly, the IMF was unwilling to support the Lebanese peg after a similar currency arrangement had recently failed in Argentina. Thirdly, US capital had no direct interest in Lebanon. Wall Street did not lobby for any particular outcome in Lebanon. More important in determining the US government stance was the "war on terror".

The Bush administration was at the time demanding from the Hariri government to rein in Hizballah. Hariri's unwillingness or inability to do so is likely to have been a major factor in the US decision to only give him lukewarm support. The United States were thus using their economic and financial muscle but not in the way the usual narrative of financial crises suggests. A standard Marxist account of financial crises stresses that US policy is driven by the interests of Wall Street, usually resulting in IMF bail-outs and structural adjustment programmes that focus on debt-repayment. The Marxist account still holds for those cases where Wall Street capital has a direct stake but where it does not, Washington's calculations may be very different. Finally, in the absence of US and IMF support, Saudi Arabia and France acted as "white knights". G7 member France provided the credibility to make the

Paris II conference a success, while Saudi Arabia provided financing and mobilised other Gulf countries. The willingness of these two countries to ensure the success of Paris II is due to the personal alliance of Hariri with both Saudi King Fahd and with French President Jacques Chirac.

The most important insight of this study is that agency in neoliberal politics is best understood by looking at classes, elites, and networks. Hariri was a member of the new contractor bourgeoisie, which displaced Lebanon's pre-war bourgeois families as the dominant capitalist class. The new contractors were a type of elite whose members engaged in conflict and cooperation with other elites such as former militia leaders, pre-war *zu'ama* and bourgeois families, and Shihabist technocrats. The elite network that Hariri built in the process is an artefact of neoliberal politics. The Hariri technocrats developed and implemented neoliberal rent-creation mechanisms such as reconstruction and government over-borrowing. They had the "cultural capital" to do so and they were "globalising elites" (Gill, 2003 p. 154) who strategise neoliberalism on behalf of capital. These technocrats must be "Lebanonised" as well and placed into the context of a specifically Lebanese politics. They were not simply agents of neoliberal globalisation but also part of a network led by a Sunni businessman-politician allied to Saudi Arabia. When Hariri sought to build up grassroots support among Sunni Muslims from the mid-1990s onwards, he relied on experts of sectarian mobilisation drawn from Maqasid and popular Nasserite organisations. Hariri entrusted leftist intellectual Muhammad Kishli to negotiate with Lebanon's trade unions. Muhammad Samak was liaising with the Sunni mufti on behalf of Hariri. Relations with the IMF were managed by former Fund-employee Bassil Fulayhan. By building up this network, Hariri accumulated various forms of Bourdieuan capital and acquired allies who could fight the societal and political battles the billionaire chose to engage in.

There are several wider conclusions for the study of politics under capitalism in general and neoliberal politics in particular. There is no singular logic of capitalism that determines domestic or international politics or identity politics but capitalism is always present as a powerful factor that has a tendency to impose its hierarchy on other fields. Elites and networks are important units of analysis. They cannot replace class analysis but they do

provide an additional layer and a means of refinement to take into account the impact of various “fields” beyond the purely economic. Neoliberal politics is not simply about “determination in the last instance” by the economic base. Hariri was a pole of capitalist politics and he spun a network that proved to be crucial for the course of Lebanese capitalism and politics. The history of this network still shapes the politics of Sa’d Hariri’s Future Movement and the “March 14” coalition. The analysis presented in this thesis remains central to the analysis of Lebanese politics after Rafiq Hariri’s death.

## Appendix 1

*Lebanese balance of payments statistics: 1951-2002*

*Annual averages, US\$ million*

	<b>1951-52</b>	<b>1964-66</b>	<b>1971-73</b>	<b>1986-87</b>	<b>2000-02</b>
Merchandise	-88	-336	-508	-1,278	-5,319
<i>Exports</i>	32	132	413	553	810
<i>Imports</i>	-120	-468	-921	-1,831	-6,129
Nonfactor services	63	199	336	178	-36
Factor (capital) services	2	46	91	489	-62
Transfers	20	25	30	468	-26
<b>Current account</b>	<b>-3</b>	<b>-66</b>	<b>-51</b>	<b>-499</b>	<b>-5,443</b>
Direct investment		16			1,032
Private short-term capital		119		-312	-749
Net public debt disbursement		4		92	1,527
Errors and omissions		15		745	3,670
<b>Capital account</b>	<b>8</b>	<b>154</b>	<b>301</b>	<b>525</b>	<b>5,480</b>
<b>Overall balance<sup>1</sup></b>	<b>5</b>	<b>88</b>	<b>250</b>	<b>26</b>	<b>37</b>

*Source: Gaspard, 2004, pp. 146-147*

*Notes: 1) The "overall balance" reflects "compensatory financing" or "accommodating items" such as foreign exchange reserves.*

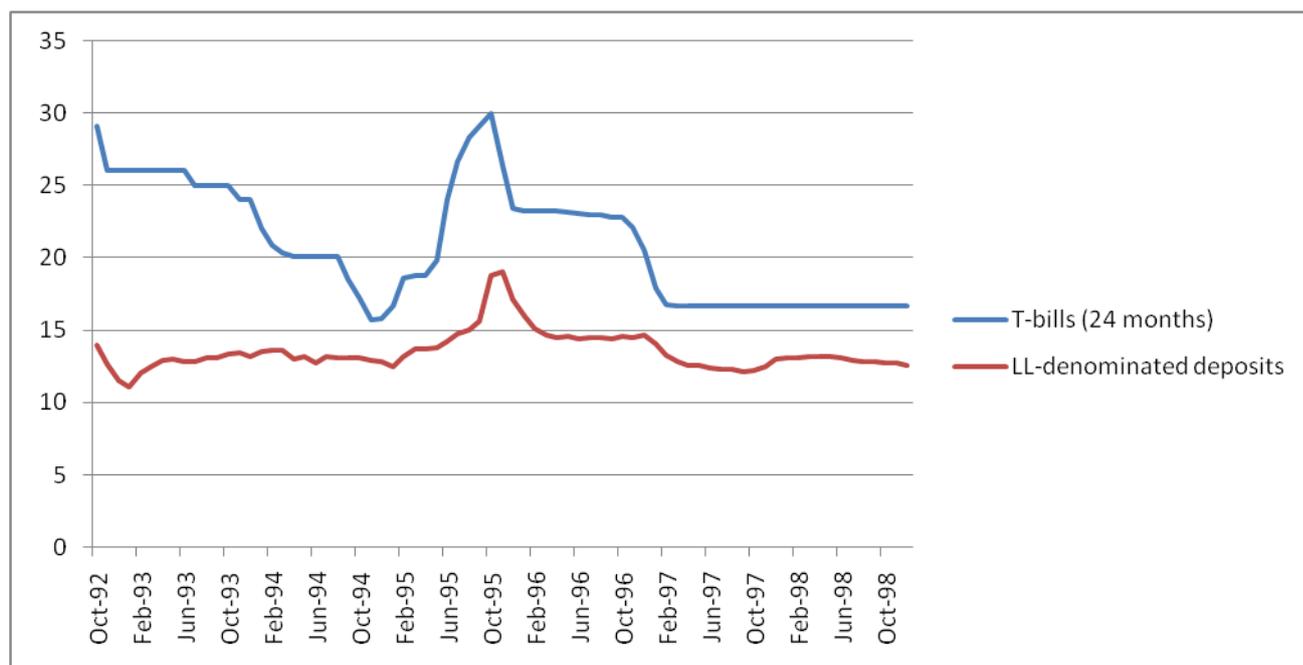
## Appendix 2

### *Types of political elites*

<b>Type of political or economic elite</b>	<b>Institutional expression</b>	<b>Economic policies/aims</b>	<b>Sources of rents</b>
Pre-war commercial financial bourgeoisie & zu'ama	Minimal state	laissez faire economy based on trade and finance	Financial intermediation, trade
Shihabist technocrats (since 1958)	Central bank (1964), Council for Development and Reconstruction CDR (1977)	State-led development, planning	Government expenditure
Military and security establishment (since 1958)	Army and internal security	Checking economic power of zu'ama/pre-war bourgeoisie/new contractors	Military expenditure
Militia leaders and allied businessmen (since 1975)	<ul style="list-style-type: none"> <li>○ Amin Gemayel: Council of Foreign Economic Relations (1982-1984), Intra Investment (1983-1988)</li> <li>○ Nabih Birri: Council of the South, CDR (gained some influence in 1984)</li> <li>○ Walid Junblat: Ministry of the Displaced (from 1992)</li> </ul>	Various: access to rent, patronage	Government expenditure as patronage
New contractor bourgeoisie (since late 1970s)	Takeover of CDR (1991) and central bank (1993)	Reconstruction to make Lebanon "competitive", stable exchange rate	From reconstruction (contracts, land rent), profits from government debt financing, privatisation

### Appendix 3

*Interest rates on T-bills (24-month) and LL-denominated deposits: 1992-1998*

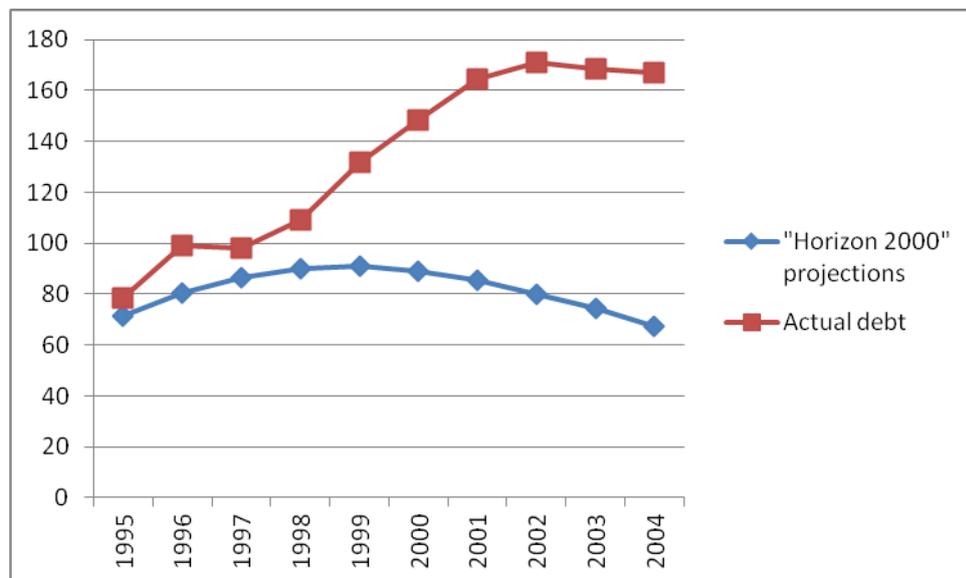


*Source: BdL*

*Note: The spread illustrated here is for illustrative purposes only. T-bills with 24 month maturity were the most common, rather than the actual "weighted yield".*

## Appendix 4

Debt projections in Horizon 2000 and actual debt: 1995-2004  
% of GDP



Source: Shahin, 2002 p. 190. IMF, *International Financial Statistics database*, 2004

## Appendix 5

*Some examples of first generation Hariri technocrats (ranked by seniority of position in government)*

Name	Position in Hariri companies/previous association with Hariri	Position in government agencies <sup>6</sup>	Sect	Place of origin
Fu'ad Siniura	Vice-chairman and managing director, Mediterranean Investor Group which owned Bank Med (1983-1992), chairman and managing Director, Bank Med (1984-1992) <sup>1</sup>	Acting finance minister 1992-1998, finance minister 2000-2004	Sunni	Sidon
Riyadh Salama	Handled Hariri's account at Merrill Lynch <sup>2</sup>	Central bank governor (since 1993)	Maronite	Kfar Dabian
Al-Fadl Shalaq	Engineer at Oger in the 1970s and 1980s, general secretary of the Hariri Foundation in the 1980s <sup>3</sup>	President of the CDR (1991-1995, 2004-2006), minister of telecommunications (1995-1996)	Sunni	Kura
Antoine Andraus	Responsible for purchases at Oger <sup>4</sup>	Director for the Fund for the Displaced (1992-1999), member of parliament since 1996-	Greek Orthodox	Beirut
Nasir Shama'	Head of operations and maintenance at Saudi Oger <sup>5</sup>	Chairman and general manager of Solidere (since 1994) <sup>6</sup>	?	Sidon
Bassil Yarid	Board member of Bank Med since 1985 <sup>7</sup>	Board member of Solidere (since 1994) <sup>6</sup>	Maronite	?

Sources: 1) Fu'ad Siniura's CV, as published on the website of the Lebanese prime minister, available at:

[http://www.pcm.gov.lb/Cultures/ar-](http://www.pcm.gov.lb/Cultures/ar-LB/Menu/%D8%B1%D8%A6%D9%8A%D8%B3+%D9%85%D8%AC%D9%84%D8%B3+%D8%A7%D9%84%D9%88%D8%B2%D8%B1%D8%A7%D8%A1/%D8%AF%D9%88%D9%84%D8%A9+%D8%B1%D8%A6%D9%8A%D8%B3+%D9%85%D8%AC%D9%84%D8%B3++%D8%A7%D9%84%D9%88%D8%B2%D8%B1%D8%A7%D8%A1/)

[LB/Menu/%D8%B1%D8%A6%D9%8A%D8%B3+%D9%85%D8%AC%D9%84%D8%B3+%D8%A7%D9%84%D9%88%D8%B2%D8%B1%D8%A7%D8%A1/%D8%AF%D9%88%D9%84%D8%A9+%D8%B1%D8%A6%D9%8A%D8%B3+%D9%85%D8%AC%D9%84%D8%B3++%D8%A7%D9%84%D9%88%D8%B2%D8%B1%D8%A7%D8%A1/](http://www.pcm.gov.lb/Cultures/ar-LB/Menu/%D8%B1%D8%A6%D9%8A%D8%B3+%D9%85%D8%AC%D9%84%D8%B3+%D8%A7%D9%84%D9%88%D8%B2%D8%B1%D8%A7%D8%A1/%D8%AF%D9%88%D9%84%D8%A9+%D8%B1%D8%A6%D9%8A%D8%B3+%D9%85%D8%AC%D9%84%D8%B3++%D8%A7%D9%84%D9%88%D8%B2%D8%B1%D8%A7%D8%A1/) viewed on 3<sup>rd</sup> August 2008. 2) *Middle East Economic Digest*, 4<sup>th</sup> June 1993, p. 27. 3) (Shalaq, 2006) 4) Interview with Sharbal Nahas, former engineer at Oger, Beirut, 2<sup>nd</sup> June 2008. 5) Solidere website, available at:

<http://www.solidere.com/solidere/leaders.html>, viewed on 25th January 2010 6) Solidere is a private company but Shama' is included here because the company is central to the reconstruction of central Beirut. 7)

*ANARAM*, 7<sup>th</sup> January 1985, p. 5.

## Appendix 6

### *Did government over-borrowing cause “crowding out”?*

Hariri technocrats generally acknowledge that some crowding out may have taken place but deny that it was stifling economic growth.<sup>1</sup> Firstly, they argue that government borrowing actually “crowded in” private sector investment. The borrowed funds were used to rehabilitate physical infrastructure such as electricity, roads, and telecommunications, which made Lebanon more attractive both for domestic and international investors.<sup>2</sup> Secondly, they argue that bank liquidity was high enough to serve both the public and private sectors. Mazin Suwaid looks at the assets of Lebanese commercial banks and divides them into three components: loans to the public sector, loans to the private sector, and foreign assets, i.e. lending outside Lebanon.<sup>3</sup> He concludes that high government borrowing occurred at the expense of foreign assets rather than private sector lending. Foreign assets declined from 39.8% of total bank assets in December 1992 to 18.1% in December 1998, according to the dataset used by Suwaid.<sup>4</sup> Private sector lending remained steady at 32.8% of total assets in December 1992 and 34.0% in December 1998. By international comparison, claims on the private sector as a percentage of GDP were actually quite high, reaching 72.9% of GDP in 1998. Thirdly, they point out that most borrowing by the Lebanese private sector was denominated in US dollars and that government borrowing in Lebanese Pounds did therefore not affect the availability of credit.<sup>5</sup> Borrowing in foreign currencies accounted for 88.9% of total private sector borrowing in December 1998. Finally, if business lending was low – especially to agriculture and industry and to small and medium-sized enterprises

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<sup>1</sup> Interview with Muhammad Shatah, Beirut, 13<sup>th</sup> February 2008.

<sup>2</sup> Interview with Mazin Hanna, Beirut, 3<sup>rd</sup> March 2008.

<sup>3</sup> An argument put forward by Mazen Suwaid, chief economist at the Hariri-owned Bank Med and advisor to Fu’ad Siniura. Mazen Suwaid, “Lebanon’s Economic Project: Lessons from the Past and Challenges for the Future”, presentation at the Lebanese Economic Association, Beirut, 20<sup>th</sup> December 2010, available at: [http://www.leb-econ.org/files/Book\\_presentation-v97.ppt](http://www.leb-econ.org/files/Book_presentation-v97.ppt), viewed on 27<sup>th</sup> June 2011.

<sup>4</sup> Data downloaded from the Banque du Liban website, available at: <http://www.bdl.gov.lb/edata/index.asp>. The chart is presented on slide 29 of his presentation: Mazen Suwaid, “Lebanon’s Economic Project: Lessons from the Past and Challenges for the Future”, presentation at the Lebanese Economic Association, Beirut, 20<sup>th</sup> December 2010, available at: [http://www.leb-econ.org/files/Book\\_presentation-v97.ppt](http://www.leb-econ.org/files/Book_presentation-v97.ppt), viewed on 27<sup>th</sup> June 2011.

<sup>5</sup> Interview with Muhammad Shatah, Beirut, 13<sup>th</sup> February 2008.

(SMEs) - this was due to the traditional lending culture of the banks who were simply risk averse.

Let's take these arguments in turn. The "crowding in" argument does contain an element of truth but it does not make up for the detrimental effects of "crowding out". The reconstruction of roads, electricity and telecommunications did give a boost to Lebanese business. However, as shown in chapter 3, government debt generation was driven by over-borrowing rather than government spending on reconstruction. Furthermore, the "crowding in" argument reflects the kind of thinking which considers the provision of physical infrastructure sufficient to make the Lebanese economy "competitive". Secondly, the argument that banks were sufficiently liquid to lend to the private sector fails to mention that the growth in public sector lending by far outstripped the growth in private sector credit. It is true that public sector lending first and foremost crowded out foreign assets. However, the share of private sector lending as a share of total bank assets actually stagnated and would almost certainly have been higher had government borrowing not been so excessive. Suwaid's argument that only foreign assets were hit is hardly convincing. Furthermore, his chart excludes a significant amount of lending to the public sector, namely commercial bank deposits with the central bank. If this is included, commercial bank claims on the public sector rise from 32.6% of total bank assets in December 1998 to 44.2%, much higher than the 34.0% lent to the private sector. Thirdly, US dollar lending is finite and cannot make up for crowding out in the money market for Lebanese pounds. The argument that private sector lending denominated in foreign currency is decoupled from Lebanese currency lending only works if the interest rate on US dollar loans remains unaffected by the high rates on Lebanese pound deposits, pushed up by government borrowing in the national currency. To a limited extent, this effect did exist. However, the two money markets were not as decoupled as some of the Hariri technocrats suggest: rising Lebanese pound interest rates were leading to de-dollarisation – the switch from US dollar deposits to Lebanese pound equivalent – thus reducing the funds available to banks for US dollar loans. Furthermore, if a firm earns all its income in Lebanese pounds, the bank will be reluctant to lend in US dollar because of the currency risk – the risk of currency devaluation, which would

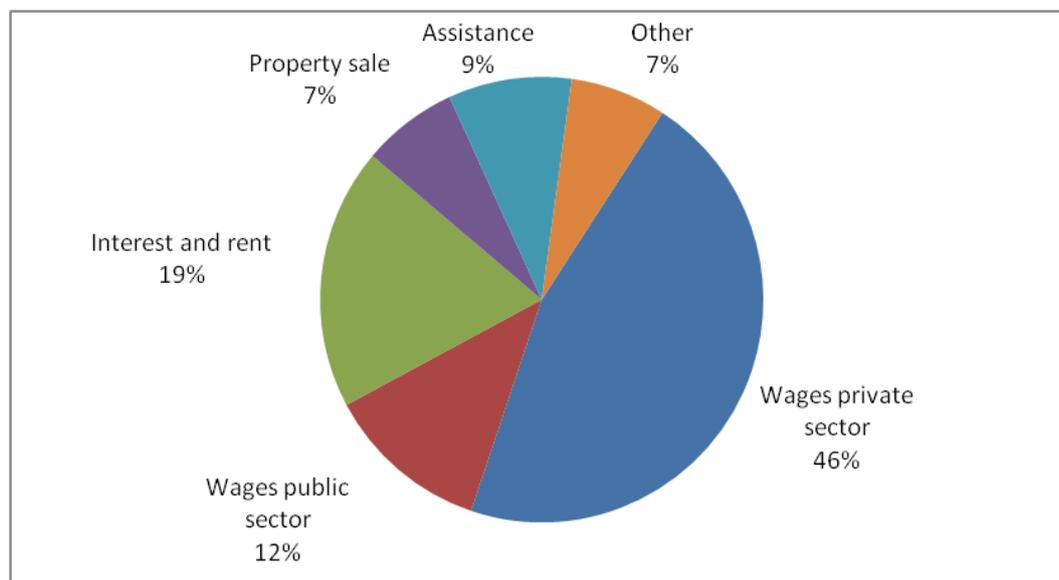
shrink the firm's income and thus inflate the loan in Lebanese pound terms.<sup>6</sup> The banks' preference for lending in US dollars therefore shut out small and medium-sized businesses which were primarily operating in Lebanon, and it privileged borrowers with multinational and multi-currency income streams. Finally, The Hariri technocrats would argue that this concentration on large firms and on services was not due to government policy but the traditional lending culture of Lebanese banks. However, at the very least, the Hariri governments were committing a sin of omission in not incentivising banks to lend beyond bubble-prone sectors such as real estate. Comparative political economists have argued that only the incentives provided to industry by activist "capitalist developmental states" enabled successful economic development (Wade, 2000). Gaspard picked up this point with regard to Lebanon, arguing that a *laissez faire* policy provides an obstacle to structural change (Gaspard, 2004). Rather than incentivise banks to lend to a wide variety of businesses, Hariri's focus on finance and construction in his government policy and in his own investments as a businessman amplified the Lebanese banks' traditional bias towards services.

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<sup>6</sup> As pointed out to the author by Mazin Hanna. Interview with Mazin Hanna, Beirut, 3<sup>rd</sup> March 2008.

**Appendix 7**

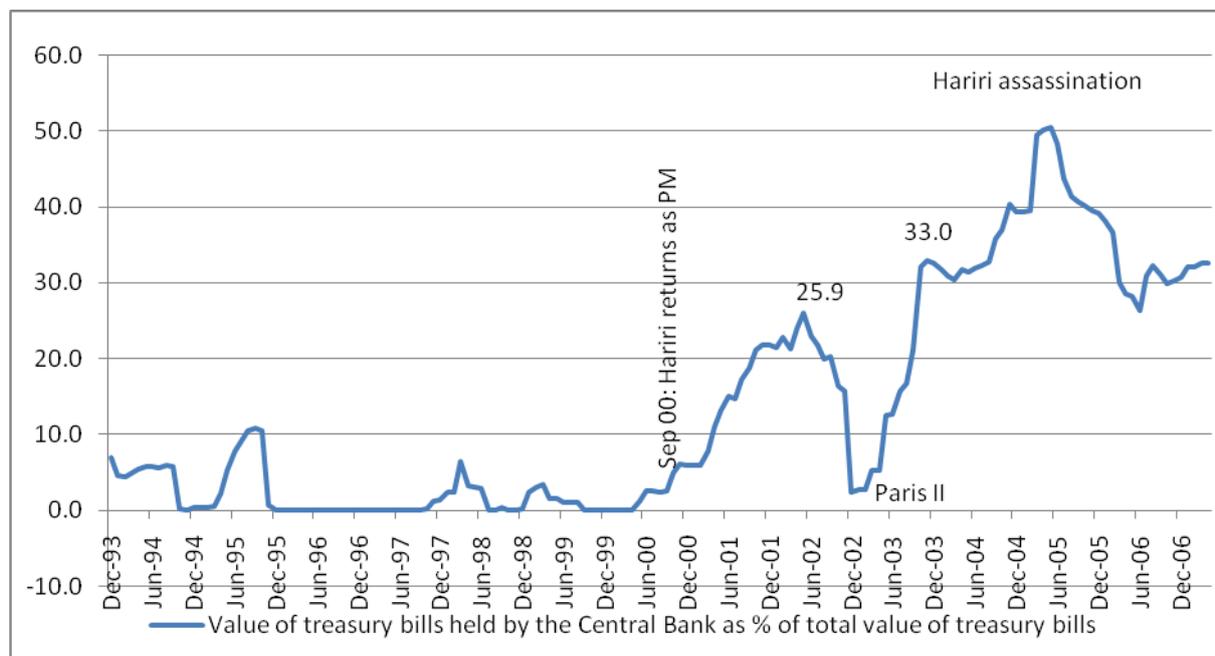
*Sources of household incomes (as % of total household income): 1997*



*Source: Gaspard, 2004, p. 96.*

## Appendix 8

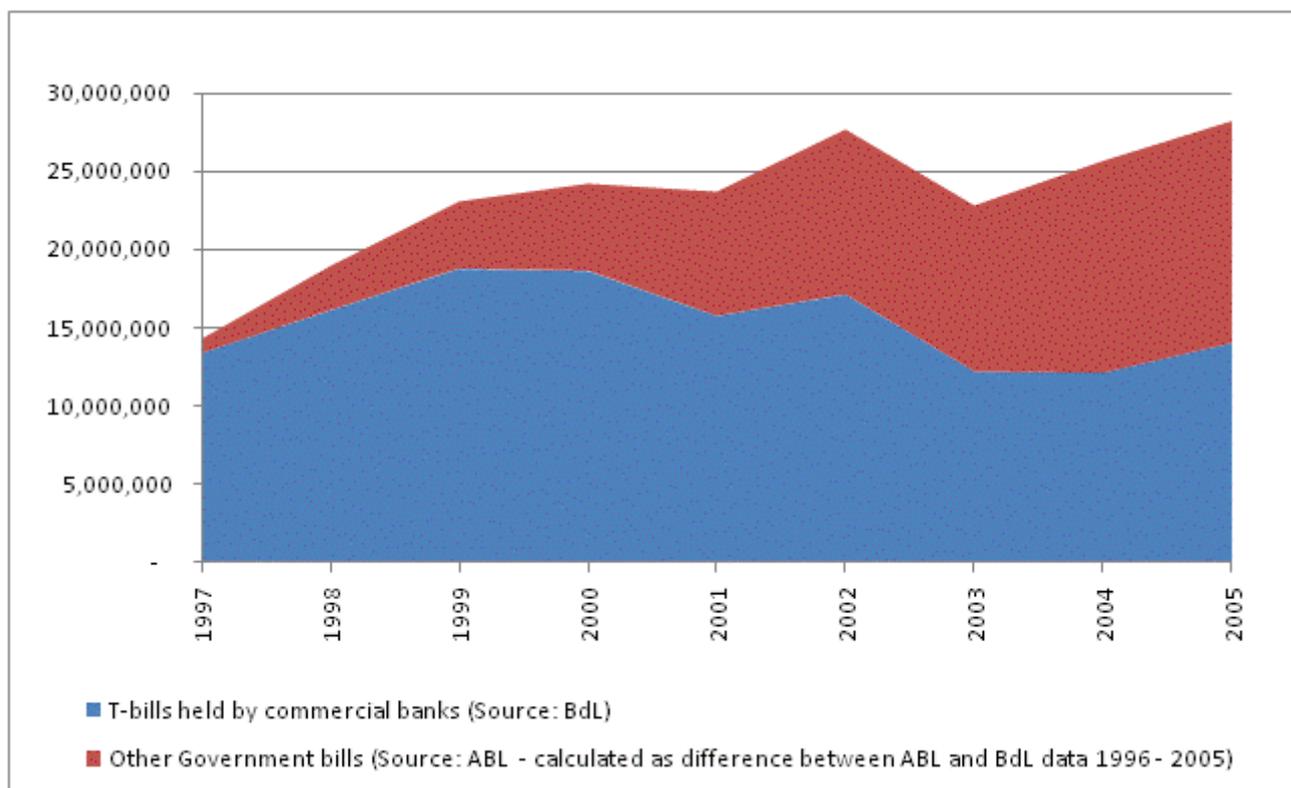
*Value of treasury bills held by the Central Bank as a percentage of the total value of treasury bills: 1993 - 2007*



Source: Bdl

## Appendix 9

*T-bills and "other government bills" held by Lebanese commercial banks: 1997-2005*



Source: (Baz, various years), BdL

## Appendix 10

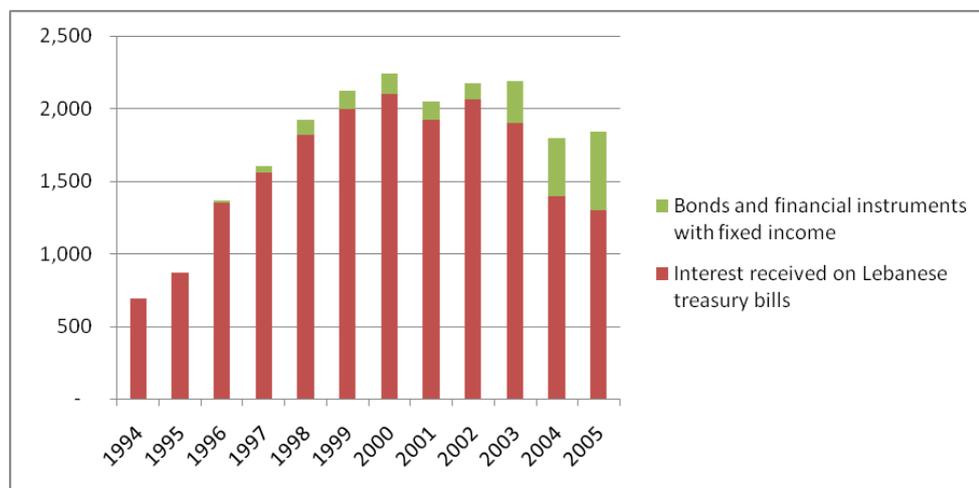
### *Ways in which Lebanese government debt-management became intransparent*

In order to finance purchases of T-bills, the central bank sold certificates of deposit (CDs) (IMF, 2006 pp. 6, 8). This became particularly acute after Paris II and in 2002 CDs accounted for 12.9% of total bank assets (IMF, 2004 p. 27). The banks were still financing the purchase of Lebanese pound-denominated treasury bills, but they did so by buying CDs from the central bank. This undermines transparency: While interest rates on Lebanese pound-denominated treasury bills are published, the rates on CDs are negotiated secretly between the banks and the central bank.<sup>7</sup> This has two advantages for the central bank. First, it can conceal pressure on the Lebanese pound by buying up T-bills at a low interest rate and refinance using CDs at an undisclosed rate. Secondly, the central bank avoids the accusation of transferring wealth to Lebanese banks and depositors. Banks have continued to earn substantial sums from lending to the government. While interest received on treasury bills fell from US\$2.1 billion in 2002 to US\$1.3 billion in 2005, interest on bonds and financial instruments with fixed income – which includes Eurobonds and CDs – rose from US\$106 million in 2002 to US\$545 million over the same period (Baz, various years).

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<sup>7</sup> One analyst at a major Lebanese bank, who wished to remain anonymous, said that a confidentiality agreement between the central bank and the commercial banks prevents both parties from publishing interest rates on CDs. The analyst himself did not know the rates. Interview, Beirut, 17<sup>th</sup> July 2008.

*Interest rates received by Lebanese banks on treasury bills and on bonds and financial instruments with fixed income (US dollar million): 1994-2005*



Source: (Baz, various years)

The central bank further obscured the country's financial situation through the way it accounted for foreign exchange reserves.<sup>8</sup> These are a way of inducing "confidence" in a currency because they show that a central bank can intervene in the currency market to prop up the exchange rate. The Lebanese central bank only publishes gross foreign exchange reserves. This excludes any foreign-currency debt it may have incurred, for instance by selling CDs denominated in US dollars.<sup>9</sup> Another way of compelling Lebanese banks to deposit foreign currency with the central bank was to increase reserve requirements in early 2002.<sup>10</sup> Various IMF reports calculated proxy variables to gauge net reserves: One calculated a deficit in "net international reserves (excluding gold)" at US\$1.4 billion in 2001 and US\$637 million in 2002 (IMF, 2004 p. 19), another found that the deficit in "net official foreign currency liquidity" reached US\$2.0 billion in 2002 (IMF, 2006 p. 25). The Economist Intelligence Unit quotes "local estimates" as saying that net foreign exchange reserves had been close to zero in September 2002.<sup>11</sup> Gross foreign exchange reserves do not, therefore, provide a gauge for the likelihood of financial crisis.

<sup>8</sup> EIU, *Country Report: Lebanon*, April 2002 (electronic version)

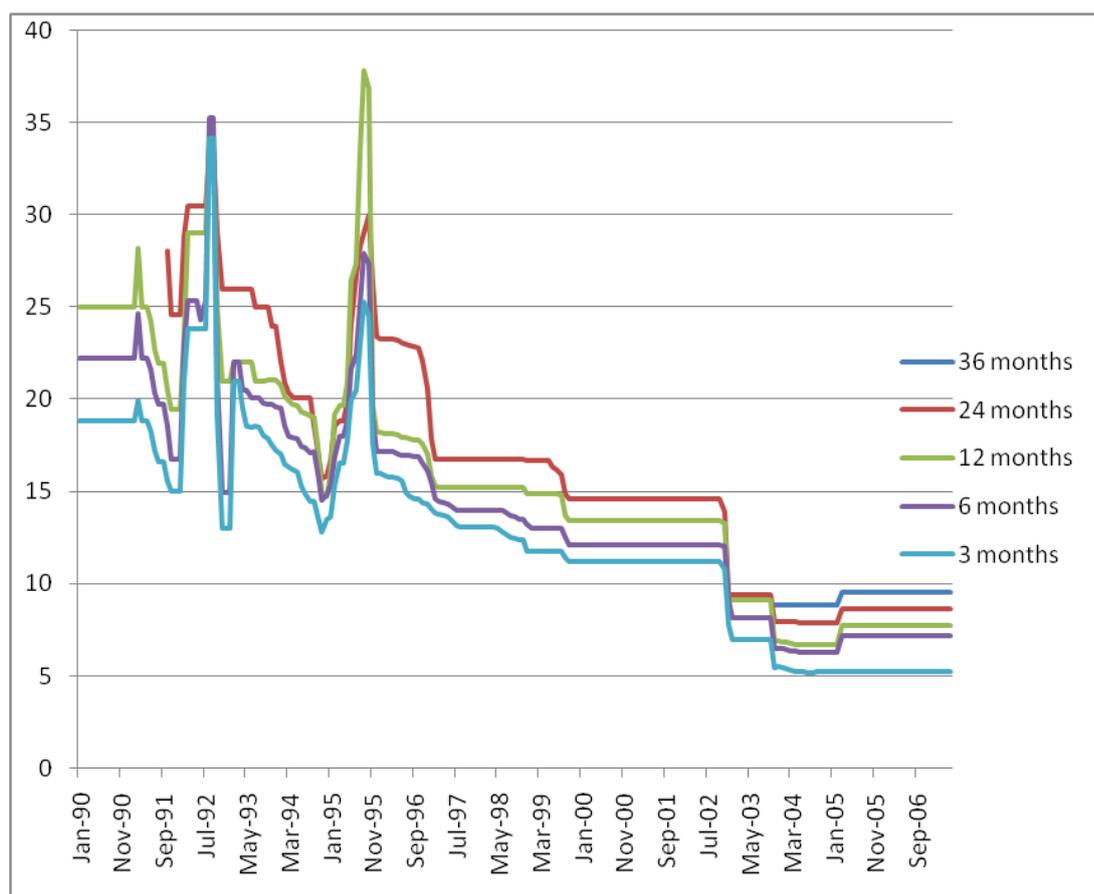
<sup>9</sup> The practice of bolstering foreign exchange reserves by selling CDs is described in EIU, *Country Report: Lebanon*, January 2004 (electronic version)

<sup>10</sup> EIU, *Country Report: Lebanon*, April 2002 (electronic version)

<sup>11</sup> EIU, *Country Report: Lebanon*, January 2004 (electronic version)

## Appendix 11

*Interest rates on treasury bills of various maturities: 1990-2006*



Source: BDL

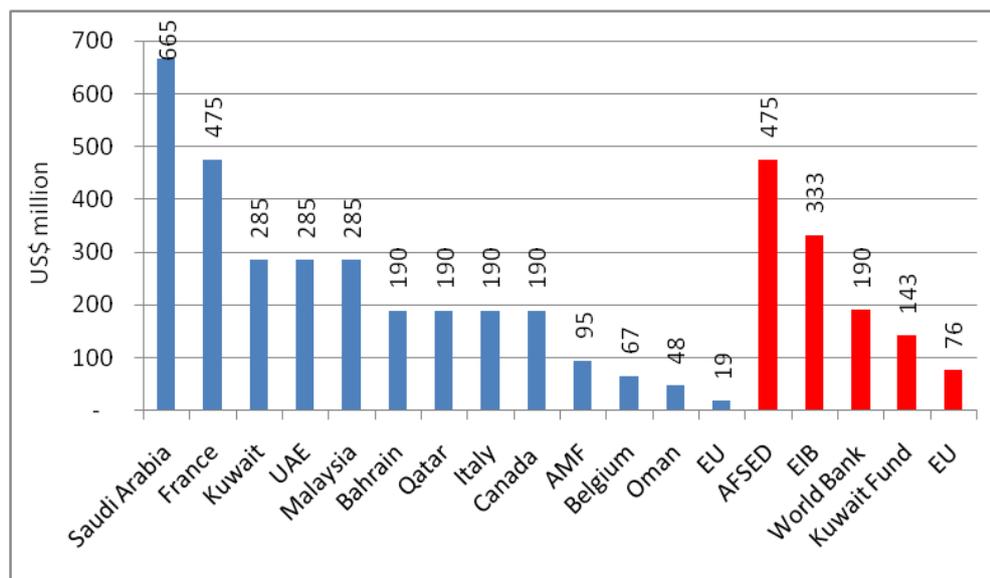
## Appendix 12

### *The four relationships that determined the outcome of Paris II*

<b>Four relationships</b>	<b>Determinants of relationship</b>	<b>Result</b>
Creditors	<ul style="list-style-type: none"> <li>• The government faced a small number of Lebanese creditors closely networked to the political elite.</li> <li>• No direct stake by Wall Street banks.</li> </ul>	Investor confidence easier to maintain than if investor base had been large and directly connected to Wall Street.
IMF	<ul style="list-style-type: none"> <li>• IMF unwilling to accept currency peg due to experience in Turkey and Argentina.</li> <li>• IMF had not stake in Lebanese economic policy, especially the peg.</li> <li>• No US pressure on IMF to support Paris II.</li> </ul>	IMF refused to endorse Paris II beyond presence of IMF representative. The absence of IMF funding signalled disapproval of salvaging the currency peg.
United States	<ul style="list-style-type: none"> <li>• Wall Street had no stake in Lebanese debt. Washington had not economic incentive to influence the IMF one way or another.</li> <li>• Bush administration wanted Hariri to rein in Hizballah</li> </ul>	US endorsement for Paris II was restricted to the presence of a junior representative. The Bush administration did not seek to persuade the IMF to support Paris II.
“White knights”	<ul style="list-style-type: none"> <li>• Saudi Arabia and France maintained close relations with Hariri.</li> </ul>	G7 member France was crucial for organising the conference, Saudi Arabia’s role was central for providing funding.

## Appendix 13

*Pledges at Paris II by country/agency  
(US\$ million)*



*Note: AMF-Arab Monetary Fund, AFSED – Arab Fund for Social and Economic Development. EU includes presidency and commission. Columns in blue denote concessionary loans as fiscal support, columns in red denote project financing.*

*Source: Economist Intelligence Unit, Country Report: Lebanon, January 2003 (electronic version)*

## Appendix 14

### *The Bank al-Madina scandal*

The economist Marwan Iskandar (2006, p. 128) reports that, as early as spring 2002, Hariri and central bank governor Riyadh Salama had warned the owner of the bank, Adnan Abu Ayyash, to rein in profligate spending on behalf of the bank, conducted by his brother Ibrahim and his personal assistant Rana Qulailat. The career of Lebanese businessman Adnan Abu Ayyash's followed a similar trajectory as Hariri's. As an engineering student at the University of Texas he had befriended Nasir al-Rashid, the middle-man who had procured the royal contracts in Saudi Arabia, which had enabled Hariri to accumulate great wealth from 1976 onwards. Like Hariri, Abu Ayyash fulfilled lucrative contracts for al-Rashid. Abu Ayyash thus belonged to the "new contractor bourgeoisie" which had accumulated its wealth in the Gulf. Like Hariri, Miqati, and Faris, Abu Ayyash invested in Lebanese finance by acquiring shares in Bank al-Madina from 1984 onwards (Iskandar, 2006 pp. 126-127). While he concentrated on his construction business in Saudi Arabia, his brother Ibrahim and Rana Qulailat ran the bank. They were responsible for the bank's purchases of real-estate and luxury items at inflated prices, a practice which raised concerns with the central bank. In February 2003, Adnan Abu Ayyash had to provide guarantees for the liquidity of Bank al-Madina, which he did not fulfil (Iskandar, 2006 p. 130).

The picture of what really occurred at Bank al-Madina only became clearer after Hariri's death. Documents leaked to American news outlets suggested that Bank al-Madina had been used for money laundering on behalf of Hizballah, the Russian mafia, dealers of West African "blood diamonds" and – most importantly – funds embezzled from the "oil-for-food" programme in Iraq.<sup>12</sup> Among those implicated was Emile Lahud's son. Bank al-Madina was among the institutions which laundered the illegal proceeds. The real-estate, luxury cars and yachts which Qulailat and Ibrahim Ayyash bought with the bank's funds were reportedly used as kickbacks to buy silence from Lebanese and Syrian officials. The documents leaked to

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<sup>12</sup> Unless otherwise indicated, the information in the following paragraph is derived from: *Fortune*, 15<sup>th</sup> May 2006, p. 112-118. *Time*, 27<sup>th</sup> October 2005, available at <http://www.time.com/time/printout/0,8816,1123483,00.html>. *US News and World Report*, 4<sup>th</sup> April 2005, p. 30-31.

the journalists suggest that Bank al-Madina's beneficiaries included Rustum Ghazala's family, the office manager of Maher al-Assad, Emile Lahud's son, and Ghazi Kan'an. Riyadh Salama left investigative journalists from Fortune magazine under the impression that he had been threatened into dropping the investigation into Bank al-Madina's shareholders and officials in 2003.<sup>13</sup>

The accusation that Bank al-Madina was laundering money from the oil-for-food programme is plausible and would explain why the bank got into trouble in February 2003, just prior to the invasion. Key depositors probably withdrew their money at that point. However, the version of events leaked to American news outlets is likely to be a partial one. The sources for the magazine versions were files held at the central bank or investigators working for Adnan Abu Ayyash. The central bank was controlled by Hariri ally Riyadh Salama. Marwan Hamada, who was prominent in mobilising Western media against Syria after Hariri's assassination, features prominently in the articles. The leaks should create the impression that members of the Syrian regime had yet another motive to assassinate Hariri. Hamada maintains that those officials who had benefited from al-Madina's kickbacks were afraid that Hariri would re-open the investigation into the affair.<sup>14</sup> Adnan Abu Ayyash, meanwhile, sought to create the impression that he had nothing to do with the embezzlement at Bank al-Madina and had merely been duped by Rana Qulailat who betrayed his trust.<sup>15</sup> The episode reminds the observer of the crash of Yussuf Baydas' Intra Bank in 1966 and the failures of banks connected to the Kata'ib party in the 1980s. It is almost inconceivable that these banks were the only ones who had gotten into trouble because of improper dealings. However, the central bank can decide how to handle the failures: whether to rescue them by injecting cash or finding a buyer or to let them fail. The decision how to handle a bank failure is thus highly political. Whether Lebanese banks other than Bank al-Madina were also struggling in 2003 is not known and it is unlikely. However, the central bank's ability to prosecute those responsible for embezzlement was a potential weapon against Syrian regime members. Central bank governor Riyadh Salama was considered a Hariri loyalist. Bank al-Madina thus became another source of tension between Damascus and Hariri.

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<sup>13</sup> *Time*, 27<sup>th</sup> October 2005, available at <http://www.time.com/time/printout/0,8816,1123483,00.html>.

<sup>14</sup> *Fortune*, 15<sup>th</sup> May 2006, p. 112-118.

<sup>15</sup> *US News and World Report*, 4<sup>th</sup> April 2005, p. 30-31.

## Appendix 15

### *The second generation of Hariri technocrats*

<b>Name</b>	<b>Previous position in IMF/World Bank/consultancies</b>	<b>Position in government agency</b>
Bassil Fulayhan	Advisor and then Senior Advisor to the Saudi Executive Director of the International Monetary Fund <sup>1</sup>	Economic advisor to the Minister of Finance and as Director for the IBRD/UNDP Revenue Enhancement and Fiscal Management Project (1993-1999). Minister of Economy and trade (2000-2003)
Mazen Hanna	?	Project Director for the Administrative Rehabilitation Project of the World Bank (2001)
Muhammad Shatah	IMF (until 1993, 2001-2005) <sup>3</sup>	Vice-governor of the central bank (1993-1997), ambassador to the USA (1997-1999), advisor and senior advisor to Prime Minister Fu'ad Siniura (2005-2008)
Nadim Munla	Economist at the IMF <sup>4</sup>	Economic advisor to Rafiq Hariri and Fu'ad Siniura, Vice-Chairman of the Beirut Stock Exchange (1994-1998), Chairman and General Manager, Future TV (1998-2005)
Jihad Azur	Consultant at McKinsey (1989-1993) <sup>5</sup>	Senior Advisor to the Minister of Finance and project director of the UNDP project (1999-2004)

Sources: 1) According to Bassil Fulaihan's CV, published on the website of the Bassil Fuleihan Foundation, available at <http://www.basilfuleihanfoundation.org/cv.htm>, viewed on 14<sup>th</sup> May 2010. 3) 2001-2005, Shatah was Alternate Executive Director to A. Shakour Shaalan (Egypt) (IMF, 2002 p. 150). 4) According to a CV published on the website of the MIT Arab Alumni Association, available at [http://www.mitpanarabconf.org/wp-content/uploads/2009/08/2002\\_Conference.pdf](http://www.mitpanarabconf.org/wp-content/uploads/2009/08/2002_Conference.pdf), viewed on 14<sup>th</sup> July 2011. 5) According to his CV, reproduced on the World Bank website, available at: <http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/MENAEXT/EXTMNAREGTOPGOVERNANCE/0,,contentMDK:21918405~menuPK:4406842~pagePK:34004173~piPK:34003707~theSitePK:497024~isCURL:Y,00.html> - viewed on 14<sup>th</sup> July 2011.

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*Middle East International (MEI), 1990-2005*

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George Corm, "Overcoming the Debt Trap: Towards an Alternative Development Model in Lebanon", Presentation at the American University Beirut, 21<sup>st</sup> May 2007.

Nur al-Din al-Kush, general manager, directorate of health and social services, Hariri Foundation, presentation at the American University Beirut on 6<sup>th</sup> February 2008.

Makdisi, Samir und Marktanner, Marcus. 2009, "Trapped by Consociationalism: The Case of Lebanon", paper presented at the annual meeting of the Middle East Economic Association, San Francisco, 3<sup>rd</sup> January 2009, available at: <http://www.luc.edu/orgs/meea/volume11/PDFS/Paper-by-Makdisi&Marktanner.pdf>, viewed on 24<sup>th</sup> November 2011.

Mazin Suwaid, "Lebanon's Economic Project: Lessons from the Past and Challenges for the Future", presentation at the Lebanese Economic Association, Beirut, 20<sup>th</sup> December 2010, available at: [http://www.leb-econ.org/files/Book\\_presentation-v97.ppt](http://www.leb-econ.org/files/Book_presentation-v97.ppt), viewed on 27<sup>th</sup> June 2011.

## **Interviews**

Note: The list of positions of the interviewees is not exhaustive but is limited to the ones most relevant to the study. The positions are denoted as of the time of the interview. Academic titles are not included.

Ziad 'Abd al-Samad, Executive Director of the Arab NGO Network for Development (ANND), Beirut, 12<sup>th</sup> March 2008.

Suha Al-'Akar, Assistant to the general manager, directorate of health and social services, Hariri Foundation, Beirut, 29<sup>th</sup> January 2008.

Lina 'Alam al-Din, former consultant for the Hariri Foundation, Beirut, 10<sup>th</sup> November 2008.

Raghid al-Sulh, consultant and advisor to the Issam Fares Center for Lebanon, Beirut, 19<sup>th</sup> March 2008.

Marwan Barakat, Head of Research Department, Bank Audi, Beirut, 17<sup>th</sup> March 2008

'Abdallah Bu Habib, former US ambassador to the USA, 18<sup>th</sup> March 2008.

'Abd al-Majid Dabbus, former property owner in Beirut's city centre and president of the Dabbus Family Association, Beirut, 11<sup>th</sup> February 2008.

Amin al-Da'uq, President of the Maqasid association, Beirut, 30<sup>th</sup> January 2008.

Khalid al-Da'uq, Honorary Consul for the Republic of Ireland, Beirut, 20<sup>th</sup> March 2008.

- Raya al-Da'ûq, President of the Association for Tenants and Owners, Beirut, 26<sup>th</sup> March 2008.
- Robert Dabbas, Chairman and CEO of Debbas Holding, Beirut, 27<sup>th</sup> February 2008.
- Samir Farah, Representative of the Friedrich Ebert Foundation in Beirut, Beirut, 30<sup>th</sup> November 2007.
- Edward Gardner, IMF resident representative in Beirut, Beirut, 28<sup>th</sup> May 2008.
- Sabah al-Hajj, former chairman and general manager of the Saudi-Lebanese Bank, Beirut, 8<sup>th</sup> November 2008.
- Ghassan Hamada, head of the AUB medical centre, Beirut, 13<sup>th</sup> February 2008.
- Mazin Hanna, Project Director for the Administrative Rehabilitation Project of the World Bank, Beirut, 3<sup>rd</sup> March 2008.
- Faruq al-Jabr, President of Dar al-Aytam, Beirut, 25<sup>th</sup> February 2008.
- Constantine Karam, secretary of the Association for Tenants and Owners, Beirut, 1<sup>st</sup> April 2008.
- Nabil Kharat, Order of Physicians, Beirut, 17<sup>th</sup> March 2008.
- Hilal Khashan, Professor of Political Science and Chair, Department of Political Studies and Public Administration, Beirut, 18<sup>th</sup> January 2008.
- Muna Kniu, former employee of the Hariri Foundation, Beirut, 7<sup>th</sup> July 2008.
- Muhammad Mashnuq, President of the AUB alumni association and member of the board of directors of Maqasid, Beirut, 6<sup>th</sup> November 2008.
- Samir Makdisi, Professor at the Institute of Financial Economics at AUB and former minister of economy and trade (1992), Beirut, 16<sup>th</sup> January 2008.
- Sawsan Masri, Deputy Chief and Social Development Expert MoSA and UNDP, Beirut, 11<sup>th</sup> March 2008.
- Muhammad Mughrabi, lawyer, Beirut, 1<sup>st</sup> of May 2008.
- Nadim Munla, chairman and general manager of Future TV and former economic advisor to Rafiq Hariri, Beirut, 2<sup>nd</sup> August 2007.
- Sharbal Nahas, former employee of Oger, Beirut, 2<sup>nd</sup> June 2008.
- Roger Nasnas, CEO of AXA Middle East S.A.L. and President of the Economic and Social Council, Beirut, 29<sup>th</sup> February 2008.
- Adib Na'ma', Policy advisor for poverty reduction with the UNDP, Beirut, 22<sup>nd</sup> February 2008.
- George Qurm, former finance minister (1998-2000), Beirut, 29<sup>th</sup> November 2007.
- Hans Pirner, Commerzbank representative in Lebanon, Beirut, 28<sup>th</sup> January 2008.
- 'Assam Salam, former president of the Order of Engineers, Beirut, 1<sup>st</sup> May 2008.
- Tammam Salam, former president of the Maqasid Association, Beirut, 23<sup>rd</sup> January 2008.
- Yaqub Sarraf, former Muhafiz (governor) of Beirut (1999-2003), Beirut, 2<sup>nd</sup> April 2008.

Al-Fadl Shalaq, former general director of the Hariri Foundation (1983-?), former president of the Council for Development and Reconstruction (CDR) (1991-1995), post and telecommunications (1995 - 1996), Beirut, 3<sup>rd</sup> April 2008.

Mazin Sharbaji, President of the Maqasid Alumni Association, Beirut, 30<sup>th</sup> January 2008.

Muhammad Shatah, former vice-governor of Banque du Liban (1993-1997), former Lebanese ambassador to the USA (1997-1999), Beirut, 13<sup>th</sup> February 2008.

'Ali Zain, President, Lebanese Association for Early Childhood Development, 19<sup>th</sup> March 2008.

Mustafa Za'tari, Director General of the Directorate of Education of the Hariri Foundation, Beirut, 31<sup>st</sup> January 2008.

Rania Za'tari al-Kush, manager of social health services at the Directorate of Health and Social Services of the Hariri Foundation, Beirut, 22<sup>nd</sup> January 2008.

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