Policy Analysis / PolicyWatch 2891

# Saudi Arabia's War on Lebanon

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Nov 13, 2017
Also available in
Arabic

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Brief Analysis

**In seeking to combat Iranian influence, Riyadh could undermine an already vulnerable Lebanese economy and threaten the country's tenuous calm.**

On November 6, Saudi Arabia's minister of Gulf affairs, Thamer al-Sabhan, announced that the Lebanese government, which is dominated by Hezbollah, the Iran-backed political party and militia, would be treated as if it had "declar[ed] war" on Riyadh. Sabhan's proclamation came just two days after Lebanese (Sunni) prime minister Saad Hariri, while in Riyadh, resigned, ostensibly folding his coalition government with Hezbollah, apparently at the suggestion of Saudi Arabia. These steps -- and several other recently announced measures -- represent an aggressive new Saudi policy toward Lebanon. Indeed, Riyadh's "war" on Iranian influence in Lebanon is likely to be economic rather than kinetic. The new approach, which comes after nearly a decade of failed Saudi efforts to bolster Hariri's pro-West, Saudi-oriented Future Movement and its allies against Hezbollah, no longer distinguishes between local confederates and hostiles. Frustrated with Hezbollah's increasing influence in Beirut, Riyadh appears to have decided to target all of Lebanon.

## Lebanon's Economic Woes

The Lebanese civil war (1975-90) and postwar reconstruction have had a profound and enduring impact on the state's economy. Since 1990, accumulated debt, structural imbalances, insufficient revenues, endemic corruption, and periodic wars have contributed to an economy that many analysts believe is on the verge of collapse. Today, Lebanon's debt-to-GDP ratio is 148 percent, among the world's highest, and the International Monetary Fund predicts that it will increase to 160 percent by 2021. The cost of financing this debt is astronomical. Worse, growth is anemic, about 1 percent, and the regional political situation -- even before the current crisis with Saudi Arabia -- has undermined investor confidence. Accordingly, foreign deposit inflows have slowed, and the state's S&P credit rating has declined from a B to a B-. And then there are the costs of absorbing nearly 1.5 million Syrian refugees -- a 30 percent increase, at least temporarily, in Lebanon's population. According to the World Bank, the war in Syria and hosting the refugees cumulatively cost Lebanon about $7.5 billion per year.

The new Saudi strategy appears to target Lebanon's already challenged economy. It does so by seeking to further weaken three vulnerable areas: expatriate labor, the financial sector, and tourism. This goal, if achieved, will almost certainly have a pernicious impact on the national situation, as elaborated below:

*Expatriate labor.* An estimated 15 million Lebanese reside abroad, so, not surprisingly, expatriate remittances are exceedingly important to Lebanon. Indeed, remittances account for nearly 16 percent of Lebanon's GDP: in 2016, Lebanese abroad sent home nearly $7.2 billion. With an estimated 400,000 workers, the Gulf Cooperation Council states -- Saudi Arabia, the UAE, Qatar, Bahrain, Kuwait, and Oman -- are a key source of Lebanese remittances. Lebanese sources say that nearly two-thirds of all this income is generated in GCC states, the vast majority of which from Saudi Arabia.

In recent months, however, as part of its Saudi Vision 2030 initiative, aimed at diversifying the economy and strengthening local employment numbers, Riyadh dramatically increased the cost of residency permits for foreign workers. As the fees rise, remittances necessarily will fall, along with the numbers of expatriate laborers. The more immediate concern is the threat that Saudi Arabia -- along with the UAE -- might expel Lebanese nationals, even though most of them are Sunni Muslims and Christians, not Shia.

The loss of Gulf remittances would be yet another blow to the reeling Lebanese economy. Not only would it lower state GDP, it potentially could add to the ranks of the 7 percent unemployed. These newly unemployed workers will undoubtedly be angry at Saudi Arabia, but may also channel their anger toward Hezbollah.

*Financial sector.* Hariri's resignation could affect several items passed in 2016 by his cabinet, including decrees regulating offshore oil and gas exploration as well as the new national budget, Lebanon's first in twelve years. If the resignation is followed up with additional harsh economic measures by Saudi Arabia and other Gulf states, Lebanon will face further challenges.

In particular, 80 percent of foreign direct investment in Lebanon comes from the Gulf, 40 percent of which is in the real estate sector. While Gulf investment in Lebanon has not increased since 2012, despite periodic political problems, investors have not, en masse, sold off their investments either and thereby harmed the economy. Lately, however, Lebanon has witnessed a reported 10-20 percent drop in real estate values. To be sure, a Gulf selloff would have further serious consequences for Lebanon's formerly robust real estate market.

The Gulf also has leverage on Lebanese trade, accounting for 20 percent of Lebanon's total exports. Should the GCC decide to do so, it could find other suppliers, worsening Lebanon's balance of trade, which was running a 30 percent, or $15.65 billion, deficit in 2016.

Most notable, however, is Saudi Arabia's potential impact on the critical Lebanese banking sector. Saudi deposits at the Banque du Liban, as the Lebanese central bank is known, are about $860 million, the sum originally placed there to help stabilize the Lebanese lira when Rafiq Hariri, Saad's late father, was first elected prime minister in 1992. To support Hariri and his economic plans for Lebanon, Saudi Arabia agreed to keep these deposits in the Central Bank. Now that Saudi Arabia has expressed its view of a Lebanese "declaration of war," and that Saad Hariri has resigned, concerns have arisen that Riyadh could withdraw these deposits. While overall the deposits account for only about 2 percent of Lebanon's foreign reserves, their removal could shake confidence in the Central Bank, if not destabilize the lira.

Back in February 2016, rumors circulated widely that the Saudis would pull their deposits after the Lebanese government refused to condemn Iran for sacking the Saudi embassy in Tehran and consulate in Mashhad. This never happened, but Riyadh did cancel its commitment to deliver $4 billion in grants to the Lebanese Armed Forces and Internal Security Forces.

*Tourism.* Before the first Gulf tourism boycott of Lebanon in 2012, in response to Hezbollah's military activities in Syria in support of the Assad regime, Saudi tourists constituted a quarter of all visitors to the state. Although Gulf tourists started returning gradually over the years, they have not since exceeded 8 percent of the total. The decrease in wealthy Gulf tourists mainly hurt the hotel sector, driving occupancy down to 40 percent of 2010 levels, and overnight hotel rates down to 56.6 percent of the prior levels. This decline, in turn, drove up unemployment rates in the hospitality sector. During the summer, the traditional high season for Gulf tourists in Lebanon, the absence of these visitors also hindered business for restaurants, resorts, and other entertainment venues. Just days ago, on November 9, Riyadh advised Saudi citizens not to travel to Lebanon; Kuwait and Bahrain quickly followed suit.

Although tourism has declined from the GCC states, Lebanon has, to some extent, filled the gap by attracting tourists from other Arab countries, such as Jordan and Iraq, as well as with Western tourists who see Lebanon as one of the few relatively violence-free Middle East countries in the post-Arab Spring era. Indeed, the relative quiet in Lebanon and the yearlong political compact among Hariri, Hezbollah, and the group's Christian allies resulted in a 2017 tourism increase of 25 percent from the previous year. The current Saudi offensive, however, threatens to erode even some minor overall gains in tourism.

## Conclusion

By targeting expatriate labor, the financial sector, and tourism, Saudi Arabia's new campaign against Lebanon will all but certainly have an impact on Lebanon's economy. To be sure, this approach will hurt not only Iran's proxies like Hezbollah and its constituents, as well as Hezbollah's Christian allies in the Free Patriotic Movement; it will equally affect Lebanon's Western-oriented Sunnis and Christians, who until now have been on good terms with Riyadh.

In this regard, the Saudi strategy takes a page from the longstanding Israeli policy via-à-vis Hezbollah in Lebanon. Israel's so-called Dahiya doctrine holds that because Hezbollah dominates the state, during the next war with the group, Israel will not limit itself to targeting the militia but instead will hit all Lebanese state institutions. This policy, in place since 2006, has succeeded in establishing a semblance of deterrence on Israel's northern border. In recent months, Saudi Arabia has launched its own iteration of this strategy, at least economically, in an effort to compel changes in Doha's behavior. It is unclear whether Saudi Arabia's own version of the Dahiya doctrine will be as successful in deterring Iranian aggression in Lebanon.

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