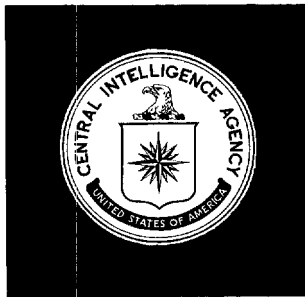


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Lebanon Handbook

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INTRODUCTION

Lebanon practices a precarious balancing act to maintain its unity and independence. Located at the economic and cultural crossroads of the eastern Mediterranean, the country is divided almost evenly between Christians and Muslims, each group with numerous sects, and each tending to operate in its own social and economic milieu. Political power is allocated within the parliamentary system on the basis of religion. Stability has depended on the willingness of each religious community to avoid controversy, an approach that tends to leave some serious domestic problems in abeyance. The desire to avoid trouble extends to foreign policy; Lebanon has viewed itself as a bridge between the West and the Middle East, neutral in great power matters and beyond the range of intra-Arab squabbles and Arab-Israeli wars.

Lebanon's national character and behavior derive in large measure from the country's position at the juncture of major air, sea, and land communications routes. Here Arab invaders, Christian crusaders, missionaries and educators, and later the French Mandate authorities all brought their influence to bear. In addition, Lebanon has historically served as a refuge for religious minorities escaping persecution in their own countries. It was during French rule, from 1920 to 1943, that Christians became predominant socially, politically and economically. Although Muslims claim that they now outnumber the Christians, the division of power which resulted from the census of 1932 has not been altered, and there is no indication of sufficient pressure to force a new census within the near future.

The country's economic reliance on external developments provides additional pressure for policies of compromise. Lacking natural resources—Lebanon has no oil or other minerals and only a third of its land is arable—but favored by its location, the country has turned to international trade and services. It has occupied a profitable position as commercial middleman between the West and the Middle East, and as banker for the Arab world, although this latter enterprise has been undermined since the 1966 Intra Bank collapse. In addition, the terminals of the two major oil pipelines of the Arab Middle East are located there.

By and large, the Lebanese have been able to make a success of their unusual situation. Of all the Arabs, the Lebanese are the most urbanized and the best educated, with the largest middle class and the highest standard of living. Domestic and foreign affairs are conducted under the terms of an

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unwritten compromise—the National Covenant—which rests on the recognition by each religious group of the tenuity of its own position in society and of the overriding importance of avoiding major conflicts. The covenant provides for proportional representation of religious communities in the Chamber of Deputies and for division among them of public offices and political influence. The president of the Republic, for example, is always a Maronite Christian, the prime minister a Sunni Muslim, and the president of the Chamber a Shia Muslim.

Conducting national affairs on the basis of compromise and evasion of conflict has its drawbacks. For example, although some progress was made in the 1960s, the government has yet to take strong and effective action to correct imbalance in the economy or to deal with economic inequities that keep the majority of Muslims in less lucrative occupations like farming. Nevertheless, the major crisis of 1958 was a clear indication of the dangers of altering Lebanon's delicate political balance too drastically. What was basically a Christian attempt to grab a larger share of power developed into an open insurrection, which ended only after the United States put troops ashore near Beirut and helped to restore equilibrium.

As a guideline for international relations, the National Covenant stresses the country's special character as an Arab state with ties to Western civilization. Lebanon's friendship with the West, particularly the United States, is long established, but the balance implied in the covenant has also led to the country's neutrality in the East-West struggle. The covenant further prescribes strict neutrality in Arab disputes, but the pressure of events, particularly since 1967, has made it increasingly difficult for Lebanon to remain aloof. The passions of the Arab-Israeli conflict and the growth of the fedayeen movement have thrust themselves on unwilling Lebanese leaders. They could threaten Lebanon's detachment and even its domestic stability.

Like other members of the Arab League, Lebanon does not recognize Israel. It upholds the economic boycott of that country and favors the return of Palestinian Arabs to their homeland, but it has little desire for renewed hostilities against Israel. Lacking in military strength and basically conciliatory in foreign policy, Lebanon did not participate in the 1967 Arab-Israeli war. Growing impatience among other Arabs with Lebanon's neutrality, and increasing use of Lebanese territory by Palestinian commandos as a base of operations threaten to draw the country into a more direct confrontation with Israel. The commando issue has also aggravated tensions between the Christians, who desire continued neutrality, and Muslims, who are torn between their wish to avoid domestic conflict and their emotional attachment to their Arab "brothers."

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The next decade is likely to bring further tests of Lebanon's delicate social and political balance. As a result of the 1967 war, tourism and investment have declined. At the same time, the agricultural and industrial sectors continue to lag behind the commercial and financial sectors, and unemployment and rising costs of living have encouraged social unrest. So far the government has managed to contain increased socialist and Arab nationalist political activities and the efforts by the recently legalized Communist Party to exploit them. Its ability to continue to do so depends, however, on the willingness of major religious groups to compromise, on avoidance of direct involvement in regional events, and on some measure of outside economic assistance for social and economic reform.

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GEOGRAPHY

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I. GEOGRAPHY

Location and area

Lebanon is a small mountainous country nestled on the eastern edge of the Mediterranean Sea. Bordered on the north and east by Syria and by Israel on the south, Lebanon lies on the main transportation and trade routes linking the Middle East with the West. Beirut, the capital and principal port, lies 230 nautical miles from the northern end of the Suez Canal, 896 miles from the Bosphorus, 1,925 miles from the Strait of Gibraltar, and less than 2,000 miles from the major industrial and trade centers of Western Europe.

Roughly rectangular in shape and comprising some 4,000 square miles of territory, Lebanon is slightly more than half the size of New Jersey. The maximum north-south length is about 130 miles, and the maximum east-west distance is about 50 miles.

Lebanon is generally divided into four geographical regions, running from north to south. From the sea eastward they are: the coastal plain, the Lebanon Mountains, the Biqa Valley and the Anti-Lebanon Mountains. The coastal plain is narrow and sloping, never exceeding a width of 8 miles. The country's principal cities and a majority of its people are located along the coastal plain, which boasts a number of shallow, curved bays that provide Lebanon with its ports and harbors. The Lebanon Mountains rise abruptly from the coastal plain with few transitional foothills. The mountains extend the entire length of the country, cross-hatched by numerous steep, east-west valleys which dissect the western slope. These valleys have been a traditional safe haven for minorities seeking refuge from political and religious persecution. The Biqa Valley is a narrow, semiarid plain wedged between the Lebanon and Anti-Lebanon Mountains, which produces most of the country's vegetable and cereal crops. It is some 80 miles long and varies in width from 5 to 15 miles. The Anti-Lebanon Mountains and their southern extension, Mount Hermon, rise to the east of the Biqa Valley and parallel the Syrian border. This region consists predominantly of rugged terrain, poor soils and snow-capped peaks.

Climate

Summers on the coastal plain are hot and humid, with temperatures ranging from the low 70's at night to the low 90's during the day. The winter months (December-May) are mild, dominated by 30 of the annual 35 inches

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of rainfall, and punctuated by an occasional frost and a very rare snowfall. In the Lebanon Mountains daytime summer temperatures may equal those along the coast but the humidity is markedly lower; nighttime temperatures are much lower than those on the coastal plain. Precipitation on the western slopes averages 63 inches annually. Winters are quite cold and snowfall heavy. The Biqa Valley receives a great deal less annual precipitation—an average of 25 inches—than the coast or the Lebanon Mountains, and has lower relative humidity and wider variations in temperature. Precipitation on the Anti-Lebanon Mountains is scant and falls mainly in the form of snow, which covers the peaks a majority of the year.

Natural resources

Agriculture—Agriculture produces more than one third of Lebanon's exports, but generates only about 10% of the GDP. About one fourth of Lebanon's 2,570,000 acres are cultivated, but approximately one half of the cultivated area consists of terraced slopes, making the use of mechanization and other modern methods almost impossible. Lebanon produces some agricultural surpluses including apples, citrus fruit, vegetables, and poultry, and agricultural items are responsible for 36% of total exports. Production is inadequate to feed the population, however, and foodstuffs account for 23% of imports, with cereals the largest item on the import bill.

Fuels and power—Oil is the basic fuel used in Lebanon. No petroleum or coal deposits have been found in the country, but oil from Iraqi and Saudi Arabian fields flows through privately owned pipelines across Lebanon to terminals on the coast. The pipeline companies pay Lebanon approximately \$14 million a year in transit fees and supply refineries located at each of the two pipeline terminal tank farms. Production of petroleum products generally exceeds domestic demand in all major categories, although fuel oil is the only locally refined product exported in significant quantity. Imports of some specialized products are necessary.

Electricity is the primary source of power in Lebanon. In 1970 the total installed capacity was 664,100 kilowatts and production was almost 1.4 billion kilowatt-hours. Development plans call for the construction of numerous dams and reservoirs to be utilized both for the production of electricity and for irrigation purposes. A 120,000 kilowatt thermal power plant, under construction at Jiyal about 10 miles south of Beirut, was scheduled for completion by October 1970. An additional 250,000 kilowatts were to be added to this plant before 1973. Initiated in 1962, the rural electrification program was to be completed at the end of 1970.

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Metal and minerals—Construction materials and salt are the only minerals exploited in significant quantities. Hard limestone and gypsum occur in abundance and output satisfies all domestic consumption. In 1967, production of dolomite, kaolin, and silica sand was officially reported for the first time, but production probably actually began years earlier. Although iron ore and phosphate deposits occur in Lebanon, no plans for their exploitation are known. The principal limitation on the potential iron ore production is the extremely poor quality of the ore.

Human resources

Despite the fact that no official census has been conducted since 1932, and further hampered by the fact that any official Lebanese estimate may have been influenced by a number of political pressures, US estimators put the Lebanese population in January 1971 at 2,746,000. This figure includes more than 1 million people of Lebanese origin living overseas and does not account for foreigners living in Lebanon, including refugees, whose total was officially estimated at over 500,000 in 1968. The Lebanese population is composed of Arabs (93%), Armenians (5.9%), Jews (0.5%), Assyrians (0.1%), and other minority groups (0.5%). By religion, the proportions officially accepted for political representation are as follows: Christians (54.9%), Muslims and Druzes (44.1%), Jews (0.5%) and other sects (0.5%).

Based on the estimated 2,246,000 actual residents in Lebanon, the average population density is about 560 persons per square mile, the highest of any Middle Eastern country. Density varies widely from region to region, with the greatest concentrations in the urban areas along the Mediterranean coast. Lebanon has a larger urbanized population than any other Arab country, with the great majority concentrated in the principal cities of Beirut and Tripoli. Including its suburbs, Beirut's population exceeded 750,000 in 1966 and Tripoli had a population of about 165,000. Most of the remaining Lebanese live in small villages of from 100 to 150 families.

Lebanon has the highest literacy rate of any Arab country—86%. The high degree of literacy, especially among young people, is a result of the rapid growth of educational opportunities. In 1967 Lebanese college students received degrees at a rate of 101 for every 100,000 citizens, a ratio surpassed by only one Middle East country, Israel. Most of Lebanon's one million employed are literate and have received at least a primary education. The level of productivity in Lebanon is generally higher than in the remainder of the Middle East, but attempts to improve productivity are limited basically to on-the-job training. Enrollment in technical and

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vocational schools remains unusually low, due at least in part to the national distaste for blue collar employment. Unemployment is relatively high but a number of unemployed are primarily seasonal workers, who can return to their villages for support when all else fails.

The average Lebanese is a shrewd businessman. He is well educated, aggressive, and has demonstrated an ability for financial dealing. Coupled with Lebanon's location at the crossroads between the Middle East and the West, these talents have made the Lebanese the most prosperous merchants, traders and financiers in the Arab world. But an economy based largely on international trade and finance is greatly affected by political upheaval, especially in the turbulent Middle East. Lebanon's major task will be that of diversifying its thriving yet unstable economy.

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II. ECONOMIC BACKGROUND

Growth rates and trends

Until slowed by a series of political and economic shocks that began in late 1966, Lebanon's economy had achieved a substantial and relatively steady growth since the end of World War II. Despite the Sinai war in 1956 and the civil war in 1958, GDP* grew during 1954-66 at an annual average rate of about 5%. As population was growing at about 2.5% a year, per capita income made a substantial advance. Throughout this period, the balance-of-payments position was strong, foreign currency reserves were growing, and domestic price levels were relatively stable.

From late 1966 through 1970, however, Lebanon experienced a series of upheavals: failure in 1966 of the largest Lebanese private bank, Intra Bank, the Arab-Israeli war in 1967, the Israeli raid on Beirut International Airport in December 1968, and clashes between the army and Palestinian commandos along with Israeli raids in 1969 and 1970. All of these events hampered economic activity, slowing real growth since 1967 to somewhat under 3% annually and nearly stagnating per capita income growth. Because of a particular sensitivity to instability and uncertainty resulting from Lebanon's role as the main entrepot and financial center of the Arab world, the service sector of the economy (including tourism, trade, and banking) was especially affected. Growth in the major goods-producing sectors of the economy was not adequate to offset the decline in the rate of growth of service activities. This condition highlighted the relatively minor role of industry and agriculture in the total economy, which the government is only gradually rectifying. The government has provided incentives to industrial development, and since 1967 industrial output and exports have been increasing very rapidly. The government also is increasing—very slowly—irrigation facilities for agriculture.

By mid-1971, some of the problems plaguing the economy had eased. Tourism showed a sizable increase over 1970 rates; early indications suggested that exports would be up; and bank deposits had risen, indicating some revival in public confidence in Lebanon's financial stability. On the negative side, however, unemployment remained at a relatively high level, and general economic activity was up only slightly.

**In Lebanon, GDP does not differ substantially from GNP.*

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Income distribution

Although Lebanon's per capita income of about \$500 is one of the higher rates in the Arab world, the average is somewhat misleading. The Christian population is far more prosperous than the Muslims, who are predominantly peasants and whose average annual income probably is less than \$75 a year. In addition, little prospect for change is apparent, since the tax system, like government policy in general, is designed to protect the interests of the wealthy, and little is being done to spread the affluence of Beirut to the farming areas of the hinterlands.

Main sectors of the economy

The economy of Lebanon essentially centers around trade and service activities, which together generate over 60% of GDP. No other one sector generates more than 13% of GDP.

Agriculture—Agriculture provides about half the population with at least part of its livelihood and produces more than one third of total exports, but it generates only about 10% of GDP. Poor soil, inadequate rainfall, and predominantly mountainous terrain severely circumscribe agricultural activity.

Farming practices vary widely; primitive methods are still in use on the many small farms. Approximately half the cultivated area consists of terraced slopes, which make the use of mechanization and other modern methods almost impossible. On the larger farms in the plains and valleys, however, the use of modern agricultural equipment has increased greatly during the past decade, and the use of commercial fertilizers, pesticides, and herbicides is growing steadily. About one fifth of the cultivated area (640,000 acres) is irrigated, largely by small privately owned installations.

Because of traditional inheritance practices of dividing land among all male heirs, many landholdings have become fragmented. This poses serious problems to expanding agricultural output. Most farmers own their own land but many plots are too small to provide a living, much less generate funds adequate to buy fertilizers and other inputs or to allow the purchase of adjacent, high-priced land. In addition, fragmentation has inhibited private development of irrigation and drainage or mechanization, as some plots are so small that even animal-drawn implements are not practical.

Although some aid has been extended, government attempts to help the farmer have been largely ineffective. The principal effort has related to some

land reclamation and expansion of irrigation. Two agricultural credit agencies have been set up to provide low-cost loans.

The varied topography, soil, and climate of Lebanon favor a highly diversified agriculture. For the most part, grains and pulses are grown on nonirrigated land, while fruits and vegetables—Lebanon's major export crops—are grown on partly irrigated land.

Oil industry—Lebanon has no indigenous supply of crude oil. With oil supplied to its refineries by pipeline from Saudi Arabia and Iraq, however, Lebanon is a net exporter of petroleum products, although imports of some specialized products are necessary. Lebanon, acting as middleman, re-exports large quantities of imported refined products to neighboring Arab states.

The continuing hostilities between the Arabs and Israelis subsequent to the June 1967 war led to the closure of the pipeline from Saudi Arabia for lengthy periods in 1969 and 1970, thus reducing refinery output total somewhat. Even so, production has increased by 25% from 1965 through 1969.

The pipeline companies pay Lebanon approximately US\$14 million a year in transit fees and supply refineries located at each of the two pipeline terminal tank farms. The refinery at Tripoli is owned by the Iraq Petroleum Company. Its capacity is 20,000 barrels per day. The Medrico refinery, near Sidon, is a joint venture of Mobil and Caltex Oil companies; it has a capacity at 17,500 b.p.d.

Manufacturing and construction—During the last decade, Lebanon has become the second most industrialized country in the Arab world, after the UAR. Manufacturing, however, accounts for only 13% of GDP and employs only 8% to 10% of the labor force. Almost all manufactures are consumer goods, primarily for domestic markets. Over half of Lebanon's industrial income stems from the manufacture and processing of agricultural products into food, clothing, leather goods, cigarettes, household furnishings, and beverages. The few large-scale industrial units include electric power plants, cement factories, two oil refineries, and a fertilizer plant.

To stimulate investment in manufacturing, the government has provided tax exemptions for certain industrial concerns, has strengthened Lebanese chambers of commerce, and has provided limited protection from foreign competition through preferential import licensing and protective tariffs. Low interest loans have also been made available. Despite these

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moves, however, faster growth of manufacturing has been impeded by a shortage of long-term capital resulting from Lebanese preferences for investment in trade, building, and other ventures that offer the prospects of a quicker payoff.

Industry is highly concentrated both geographically and financially. Most industrial establishments are located in the city of Beirut and its surroundings; some 70% of the industrial labor force is concentrated in this area. About a dozen Lebanese families control most of the larger firms (those with more than 50 employees). Foreign participation in industry is limited principally to petroleum refining and the production of plastics, fertilizer, aluminum and asbestos cement products. Government ownership is confined to utilities, such as the Beirut water and electricity works, the postal, telephone, and telegraph services, the railroads, the tobacco products monopoly, and a factory for spinning natural silks.

The building industry alone normally accounts for approximately 5% of GDP. After reaching a boom level in 1966, however, construction activity declined sharply, in large measure because of political and economic upheavals. Construction, however, will receive some stimulus in the near future from government spending if planned major new development projects are initiated.

Transportation and communications

The development of transportation and telecommunication in Lebanon has been determined largely by the location of the country on the central part of the eastern Mediterranean coast and by the mountainous nature of the land. Much of the overseas commerce of Syria, Jordan, and Iraq passes through Lebanon. Beirut, a major port, is the shipping center for foreign commerce and a modern trading post of the Arab world. Two other major ports, Tripoli and Sidon, serve as terminals for the oil pipelines from Iraq and Saudi Arabia.

The railroad and highway systems follow similar patterns: each has a coastal route, a parallel route through the Biqa valley, and a connecting route extending inland from Beirut. There are three rail and five highway connections with Syria. Highway transport is the principal internal mode in Lebanon and adequately serves present needs. The railroad system is barely adequate for normal requirements and could not carry heavy traffic for sustained periods. Most of the track and equipment is old and badly in need of replacement. Transloading operations are necessary in places because of

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gauge changes, and snow from December through March frequently blocks the narrow-gauge lines across the mountains.

Lebanon has no navigable inland waterways. Most vessels calling at Lebanese maritime ports are of foreign registry. The nation's merchant marine is composed of Lebanese-owned and foreign-owned flag-of-convenience vessels engaged in international shipping not related to Lebanese traffic patterns. The international airfield at Beirut is a major interchange point for transworld carriers, and air transport plays an important role in the Lebanese economy.

Telecommunication facilities are concentrated in the more densely populated areas and, although of high quality, do not satisfy requirements. The wire telephone system is the most important means of communication but, again, demand exceeds capacity. International radiotelephone connections are adequate for most of the requirements for this service.

Government finance and economic policy

The Lebanese economy functions largely through the free play of market forces, with only minor and reluctant government intervention. The policy of nonintervention has been pursued so assiduously by a succession of conservative governments that the state participates only minimally in ventures ordinarily considered to be state responsibilities, such as transportation, health, and education. The opportunity for substantial profits in a permissive atmosphere has been highly instrumental in establishing Lebanon as the principal commercial and financial center in the Middle East. Over the last several years, however, the state has assumed some regulatory powers in such areas as banking and public utilities and has begun to finance infrastructure projects designed to stimulate and influence the direction of private investment.

Over the past two decades, Beirut has become one of the world's major financial centers. A relatively free economy and a free market in foreign exchange led to steady increases in the volume of financial transactions and the size and importance of the banking community. This freedom of operation, however, led to abuses of acceptable banking practices and, ultimately, to a banking crisis with the failure of Lebanon's largest private bank in October 1966. Subsequently, the government increased its regulatory powers and implemented policies designed to maintain Lebanon's position in world financial markets.

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The failure of Intra Bank and the subsequent collapse in June 1968 of Al Ahli, the second largest Lebanese bank, led to increased influence for Lebanon's foreign banking community. Foreign banks, primarily US (for example, Chase Manhattan, First National City Bank, Bank of America), and European banks (including the London-based Moscow Narodny) have attracted a growing proportion of both demand deposits and investment funds. Lebanon's political left has voiced concern over this increasing foreign influence and has forced the adoption of legislation prohibiting the establishment of additional branches by foreign banks. In 1969-70, the trend toward foreign participation in Lebanese banking has taken the form of partnerships with Lebanese banks, some of whom faced the threat of forced liquidation under the new banking laws.

The Lebanese banking system itself is nominally organized around a central bank—the Banque du Liban, established on 1 April 1964. It is the sole banker for the government but does not have any commercial banking functions, and its central banking powers are severely restricted by legal limitations on its ability to discount commercial paper from the banking sector. Prior to the Intra Bank crisis, the central bank used its powers sparingly because of considerable opposition from the traditionally uncontrolled financial community. Monetary policy, accordingly, was very limited.

The budgetary process in Lebanon is far from orderly. Actual expenditures tend to be much less than budget appropriations, while collections usually exceed estimated revenues. Supplementary appropriations are a frequent occurrence, and special laws often alter the appropriations originally budgeted. In addition, clear distinctions frequently are not made between current and investment expenditures.

Most of the revenue received, however, appears to be spent on current administration, rather than on investment. A significant feature in the government budget estimates has been the growth of the national defense expenditures from 15% of the ordinary budget in 1964 to almost 24% in 1970, reflecting the continuing Arab-Israeli crisis and its pressures on the internal Lebanese security situation.

The structure of the tax system is regressive; the primary sources of income are indirect taxes and excise taxes, while vast personal fortunes are untaxed. The Lebanese indirect tax rate can be ranked, on a per capita basis, among the higher rates in the world today. In periods of economic slack, these revenues fall drastically. Customs revenues declined by 18% in 1967 after the Intra Bank crisis and the June war. The government responded by

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imposing several new taxes—for example, a temporary surcharge on income and property taxes, an increase in inheritance taxes, and a surtax on customs duties.

The monetary unit of Lebanon, the Lebanese pound, is backed by gold and foreign exchange and is freely traded. There are no restrictions on current payments or capital transfers. Foreign capital is not subject to any special registration and may be imported and exported free of any fees, taxes, or restrictions. The Lebanese Government on 2 January 1965 adopted a provisional official parity of LL 3.08 to the US dollar to be used in valuation of foreign assets and as the unit of account for government foreign exchange operations. The free-market rate of the Lebanese pound has fluctuated mildly over the past few years from \$1 = LL 3.05 in August of 1965 to \$1 = LL 3.24 in January 1971. Little initial change from the January 1971 rate was apparent following the floating of the US dollar in mid-August 1971.

Foreign trade

The trade sector of the Lebanese economy generates about 30% of GDP. The lion's share—estimated at over 20% of GDP—is obtained through foreign trade, especially entrepot and transit trade. Lebanon usually has had a surplus in its balance of payments because of substantial earnings from services and transfers. Dependence on imports, however, has given rise to a continually growing deficit in commodity trade over two decades. Lebanese exports in 1968 were only 27% of imports, and the trade deficit increased from LL 1.1 billion in 1963 to LL 1.35 billion in 1968. The largest part of the deficit is with Western Europe (including the United Kingdom and Sweden) and the United States. Lebanon maintains a favorable trade balance with most Arab countries, which, as a group, took 67% of Lebanese exports in 1968. Lebanon acts as a middleman to facilitate the movement of commodities between Europe, Africa and Asia. Transit trade has increased so rapidly since the closing of the Suez Canal that, in recent years, it has been almost equal in value to merchandise imports.

Lebanon's trade controls are minimal. They are applied largely for revenue purposes and to adjust trade to local needs. Continuous and heavy pressure, however, has been exerted by domestic manufacturing firms for tariff protection, while opposing pressure has been forthcoming from the politically powerful merchant-importer group. In this delicate situation, the government has moved reluctantly by instituting import duties on items that compete with locally manufactured goods and by lowering or eliminating import duties on raw materials and equipment required by local manufacturers.

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Balance of payments

Lebanon customarily has a favorable balance of payments and rising foreign exchange reserves. A large portion of the trade deficit is covered by invisible earnings from tourism, freight and insurance, banking, and oil transit fees. The balance of the trade deficit since the mid-1950s has been more than offset by inflows of private capital, remittances from Lebanese abroad, and earnings from unrecorded exports and other illegal transactions.

Beirut is a transit point on the gold transfer route from Europe to South Asia and the Far East. Nonmonetary gold enters the country legally and is recorded as an import by customs authorities. However, most of the gold then leaves the country in the vests or luggage of "couriers" (a practice not illegal under Lebanese law), and its export is not recorded in trade figures. The Lebanese balance of payments estimates indicate that LL 325 million worth of gold left the country in 1967, although only LL 12 million worth was recorded in the legal trade data.

In the uncertain period surrounding the 1967 war, the trade deficit fell about 20%; however, tourism and investment income also dropped, and private capital inflow declined dramatically. Over the entire year there was little change in official reserves. In 1968, however, the balance-of-payments position improved. Tourism revived, and net receipts from services increased substantially. The outflow of capital was stemmed and some of the funds which previously had left the country were returned. In 1969, capital inflow is believed to have dropped again with increasing instability in the area and also because of high Eurodollar interest rates. Thus, reserves increased only moderately as compared with 1968. Similar vacillations can be expected to continue so long as the critical service sectors (tourism, transportation, investment income) and private capital flows react to political and economic events in the Middle East area generally.

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POLITICAL
SITUATION
AND TRENDS

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III. POLITICAL SITUATION AND TRENDS

Historical summary

The history of Lebanon is a continuum of invasion and foreign domination. From about 1,600 years before Christ, Lebanon experienced successive waves of invaders, including the Hyksos, Egyptians, Assyrians, Babylonians, Persians, Greeks, Romans, Arabs, Crusaders, Turks, and French. Each of these cultures left its stamp upon the Lebanese, with the net result of a unique sociopolitical consciousness, varying considerably from one religious enclave to another.

Following World War I and the collapse of the Ottoman Empire, Lebanon gained recognition as a national entity and was placed under French mandate. The country received its independence in 1943, and French troops were withdrawn in 1946. Lebanon's recent history has been dominated by its presidents (always Maronite Christians): Bishara al-Khuri (1943-52), Kamil Shamun (1952-58), Fuad Shihab (1958-64), Charles Hilu (1964-70), and Sulayman Franjiyyah (1970-). The ends of the terms of the first two presidents were shaken by political turmoil. President Shamun's attempt to succeed himself, a violation of the Lebanese Constitution and regarded by Muslims as an attempt to extend Christian power, led to insurrection. Further endangered by pressures from radical Arab states, the Lebanese Government was forced to call for US intervention to help restore order. US forces arrived on July 15, 1958 and remained until October 25, 1958, after the inauguration of President Shihab and a return to relative internal stability.

President Franjiyyah gained the support of a Muslim-Christian coalition and won the August 17, 1970 election by a one-vote majority. A tough-minded north Lebanese, Franjiyyah strongly asserts Lebanese independence but is sensitive to the necessity of good relations with both Syria and Egypt. Franjiyyah asked Saab Salam, a highly adept traditional Muslim politician, to form a government, and it was generally presumed that the cabinet would be made up of a broad coalition of various parliamentary groups that helped elect Franjiyyah. Attempts to this effect were in vain, and Salam decided to form his government from individuals entirely outside parliament. The new ministers are primarily young and well-educated "technicians," whose appointments have been well received by the public.

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Structure of the government

The Lebanese Constitution, introduced by the French Mandate government in 1926, is basically Western in form. Originally it was largely circumscribed by France's mandatory power, but these French rights were eliminated by constitutional amendments in 1943 and 1947. The constitution acknowledges the principle that representation in the government should be in proportion to the strength of the various religious groups in the country—the well-known National Covenant of 1943. According to this unwritten agreement, the president is a Maronite Christian, the prime minister a Sunni Muslim, and the president of the unicameral Chamber of Deputies a Shia Muslim.

Executive power is entrusted to the president of the republic, who exercises it with the assistance of the cabinet, or Council of Ministers. The president is elected by the Chamber of Deputies via secret ballot for a term of six years. A two-thirds majority is required to win on the first ballot; thereafter a simple majority is sufficient for election. A candidate must be a Lebanese citizen, literate and at least 25 years of age. The constitution stipulates that six years must elapse before a past president can be re-elected.

The prime minister and other members of the cabinet may be chosen either from the Chamber of Deputies or from outside the government. The president designates the prime minister and charges him with formation of a cabinet. In choosing the other members, special attention is paid to religious affiliations in order to give the cabinet as broad a base of popular acceptance as possible. The cabinet members are jointly and individually responsible to the Chamber of Deputies for the policies of the government. A no-confidence vote by the chamber forces a minister or an entire cabinet to resign. There were 16 ministries in the cabinet formed by Saab Salam in October 1970.

Legislative power is vested solely in the Chamber of Deputies, which is elected by universal suffrage. It meets every year in two regular sessions of 2½ months each, beginning in March and October. The president may convene the chamber in extraordinary session at other times, either on his own initiative or in response to the request of an absolute majority of the chamber members. Should the president dissolve the chamber, new elections must be held within three months. Under the constitution, legislation may be initiated by the president or by the chamber itself. In practice, however, legislation usually is prepared by the ministry concerned and sent to the appropriate committee of the chamber for consideration, revision and presentation to the entire chamber, where a majority vote is required for passage.

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By this point, easy passage of the bill is usually assured. The number of deputies in the chamber is set according to the principle of representation of the various religious communities in proportion to their numerical strength as determined in the 1932 census (the most recent formal census taken). The total number of deputies has always been a multiple of eleven, reflecting the six to five ratio in 1932 between Christians on the one hand and Muslims and Druzes on the other. The membership of the chamber was fixed at 99 by the electoral law of 1960. In order to be eligible to serve in the Chamber of Deputies an individual must be a literate Lebanese at least 25 years of age. The term for deputies is normally four years.

Lebanon has two court systems, one religious and the other secular. The religious courts have jurisdiction, within their own communities, in cases dealing with violations of religious law as well as with marriage, divorce, inheritance, and other personal matters. The secular courts, patterned after the French system, consist of district courts with jurisdiction in both civil and criminal cases, provincial courts of appeal and a final court of review at the national level.

Supervision of regional and local administration is highly centralized and is concentrated in the Ministry of Interior. In each of the five provinces a governor is the local representative of the central government and is the executive head of the administrative area. He is appointed by the president of the republic upon the recommendation of the minister of interior. The governor is responsible for implementation of the provincial laws, maintenance of public order, administration of the provincial subdivisions, and efficient operation of public services within his area. The practice of confessional representation applies even in local government; seats on local councils are apportioned among the various religious groups on the basis of their numerical strength in the various localities.

Political dynamics

Political allegiance in Lebanon is patriarchal, and patriotism in the Western sense is virtually nonexistent. Likewise, national political parties as they are known in the West have not evolved, despite the Western origin of Lebanon's parliamentary system. Family and religion are still the primary determinants of political affiliation. Although some international and intra-Arab parties function in Lebanon, modern political ideologies are only beginning to be understood.

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The key to power in Lebanon is in the office of the president. He designates the prime minister, greatly influences the composition of the cabinet, appoints provincial governors and other high officials, issues executive orders in accordance with existing laws, negotiates and ratifies treaties (subject to approval by the Chamber of Deputies for financial and commercial treaties), dissolves, adjourns and calls special sessions of the parliament, and initiates legislation and constitutional revisions. The president also has a suspensive veto, and is given legislative power by the constitution in two specific instances: 1) he may enact the national budget by decree if the Chamber of Deputies fails to act, and 2) he may promulgate by decree a measure which the government (the president and the cabinet) has designated urgent if the chamber fails to act within 40 days. Because of these considerable powers, a change of executive affects the political fortunes of a great many appointees throughout the government. There is, therefore, a natural tendency for inertia among these appointees, who resist replacement of the president. Efforts to change the constitutional provision prohibiting two successive terms for a president have been the source of considerable controversy and periods of extreme violence in the past. Future attempts by a president to succeed himself or by elements inside or outside the government to manipulate election results, would be sufficient to reawaken traditional animosities between the Christian and Muslim segments of the country.

Since the 1970 election of President Sulayman Franjiyyah, known political groupings in Lebanon have been so fragmented and political lines so clouded that a description of major political parties using pre-1970 labels is of no use. With the election of a compromise candidate (Franjiyyah) and the defeat of the major Shihabist and Shamunist party candidates, political alignment in Lebanon has been thrown into a state of flux. Both Shamun and Shihab enjoy the support of small contingents in the parliament, but these factions are a fraction of their former size and popular support for these two rival former presidents has declined in similar fashion. Contemporary Lebanese domestic politics is experiencing major reorganization as key influential strong men maneuver in preparation for the 1976 elections.

A serious threat to Lebanese stability issues from Lebanon's contradictory and controversial position as an Arab state which maintains close ties to the West. This position has led Lebanon to espouse the cause of her Arab cousins against Israel while at the same time hoping to avoid any direct military confrontation with her southern neighbor. The increase of Palestinian guerrillas in Lebanon's southern regions plus recent measures the guerrillas have taken to go underground have been a source of growing

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concern to the Lebanese Government. In mid-July 1971 the government announced that the army would fire upon any fedayeen who did not comply with government restrictions on fedayeen activities. (See Subversion.) Yet, any indications that the army intended to carry out such a program could inflame the Muslim segment of the population, which supports the fedayeen, and thrust the country into renewed conflict between Muslim and Christian factions.

In recent months, President Franjiyyah has successfully steered his own appointees into the key positions of commanding general of the army and chief of the Deuxieme Bureau, in the persons of Major General Iskandar Ghanim and Colonel Jules Bustani. Both officers are very capable and have records as efficient administrators. The appointment of these two apolitical officers is vitally important to the President, since they replace two former Shihabist sympathizers. These two positions are essential elements of the President's administrative control because of the effect they can have on the stability of the country. The army's prime mission is the maintenance of internal security, and in Lebanon, where interreligious conflicts can lead to bloody insurrection, a well-trained and disciplined army can act as an effective buffer force. In addition, parliamentary elections, upon which presidential election depends, are usually held on four consecutive Sundays in the different regions of Lebanon. This system allows security forces to concentrate their efforts in the designated areas on a given Sunday and interdict any attempts to disrupt the elections. The longevity of the present government will depend on how it addresses itself to the recurrent Lebanese problem of presidential succession and the threat of the fedayeen and their Muslim supporters. President Franjiyyah has taken a strong step toward a solution through the appointment of two key military commanders, but ultimate success or failure depends on how they handle their responsibilities.

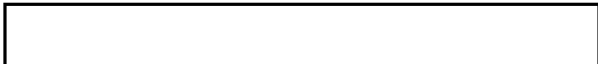


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SUBVERSION

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IV. SUBVERSION

The fragmented nature of its society and the heavy dependence of its economy on trade make Lebanon unusually susceptible to both domestic and outside pressures. Furthermore, the government has been slow to make the social and economic reforms necessary to cope with the country's inequality of wealth, underemployment, and the growing discontent of students and workers. Critics of the government, however, are themselves divided along social lines paralleling those of the country as a whole, and as a result they have not been able to coalesce into a significant antigovernment force. Nearly all groups are agreed on the need to preserve the Lebanese state, but the sensitive balance among religious groups, on which the government depends, is very susceptible to national crises.

Neither the various Communist party factions in Lebanon nor the other opposition political organizations—the Ba'th Party, the Social Nationalist Party, the Muslim Brotherhood, and the Islamic Liberation Party—present a direct threat to the government. Nevertheless, should they join forces with the commando organizations (Fatah, the Popular Liberation Forces, the Popular Front for the Liberation of Palestine, and Al-Sa'iqah), which command a great deal of popular sympathy, they could present a serious threat to internal stability.

Lebanon's relationship to the Palestinian commandos has been a divisive issue since the 1967 Arab-Israeli war. Those who see Lebanon as part of the greater Arab nation—primarily the Muslims—view Lebanese participation in the Palestinian struggle as an inescapable obligation. They consider that the commandos have a right to carry on the struggle from any part of the Arab homeland. Those who see Lebanon as a unique state with a character distinct from that of the Arab countries—primarily Christians—are opposed to Lebanon's being drawn into the Palestinian struggle and are against the commando presence in Lebanon.

The principal objective of the commandos is the destruction of Israel, not of Lebanon, but efforts by the Lebanese Government to restrict terrorist activities in order to avoid Israeli retaliation have resulted in alienation between the commandos and the government. However, the attempts of the commandos to extend the areas of their activities and to take control of the refugee camps in Lebanon have tended to solidify public opinion behind the government, even among some Muslims. The Lebanese are particularly wary of Syrian support of the commandos and the consequent threat to Lebanese

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sovereignty and independence; the lesson of Syria's interference in the civil war in Jordan in September 1970 will not soon be forgotten in Lebanon. The subsequent dismemberment of the commandos by the Jordanian army in July 1971 has greatly increased the numbers of fedayeen who have relocated in southern Lebanon. President Franjiyyah's mid-July statement that commandos failing to cooperate fully with Lebanese army controls would be fired upon has committed the army and the government to a less flexible course of action. It remains to be seen whether the army will be forced to carry out this policy and how violently the Muslim segment of the population will react if they do.

General stability in Lebanon, but not the government itself, is also threatened to some extent by the Communist capability of creating labor unrest. Since about 1967 the Communist Party of Lebanon (CPL) has made a special effort to penetrate the trade union movement, and it has succeeded in placing a few of its members in important positions. The Communist-controlled National Federation of Labor Unions has been licensed by the government, making it the first officially recognized Communist labor federation in the eastern Arab world. In the other labor unions the Communists seem to have gained influence because of their attacks on the government's lack of social legislation and also because of their charges that the national union leaders are hirelings of business and of politicians.

The CPL has also made a special play for influence with certain small minority groups. Elements of the Armenian minority, which constitutes 5.9% of the population, have been very active in the party. Artin Madoyan, an Armenian, was one of the founders of the CPL and has remained an important leader. Other Armenians are or have been members of the Central Committee and the Politburo; many cells are composed entirely of Armenians. A great deal of Communist propaganda has been directed toward this ethnic group, but despite this effort, candidates and/or sympathizers of the anti-Communist Tashnak Party have always won the parliamentary seats reserved for Armenians.

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ARMED FORCES

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VI. ARMED FORCES

Defense organization

The Lebanese Constitution does not define the position of the armed forces within the government. By various laws and presidential decrees, however, the President of the Republic is vested with the equivalent power of commander in chief. Although the president nominally is assisted in the direct exercise of military authority by the prime minister and the minister of national defense, in actual practice he maintains direct contact with the commanding general of the army.

The armed forces have always followed French patterns in organization, tactics and staff direction. Modifications of French doctrine and concepts were introduced in the late 1950s when the Lebanese began to receive military assistance from other Western countries, principally the US, Great Britain and Belgium. The changes which the Lebanese have incorporated into their military establishment from foreign sources served to modernize and improve their units.

The commanding general of the army is the highest military authority and commands all components of the Lebanese Army, which includes naval and air forces. The three elements of the armed forces have their respective headquarters in Beirut. All support activities, including staff and logistic support, are rendered by the army.

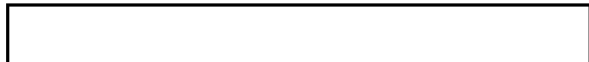
Manpower, strengths and capabilities

On 1 January 1971 Lebanon had an estimated 670,000 males between the ages of 15 and 49, excluding Palestinian refugees. Of these, approximately 395,000 were considered fit for military service. The average number of Lebanese men reaching military age (18) annually is about 28,000. The armed forces have generally been able to select well-qualified recruits, but recruitment efforts were less successful in 1969-70. Although literacy is not a major consideration for acceptance into the service, most of the enlisted men are literate.

The armed forces of Lebanon consist of a conventional army and air force, a coast guard navy, and several paramilitary forces; together they total 21,800 men. The army has about 14,100 men, including 18 battalions: nine infantry, one commando, three field artillery, one antiaircraft, two tank, and

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two reconnaissance. The navy has 200 men with one landing and five coastal patrol craft. The air force has 1,200 men and 37 aircraft, about 19 of them jet fighters. Of the paramilitary forces, the National Gendarmerie has 5,000 men and the Beirut and Judicial Police another 1,300.

The Lebanese Army is capable of maintaining internal security, except possibly against a full-scale uprising by the fedayeen including military support from Syria. It has no offensive capability and can only be counted on to execute delaying or harassing action against an invasion force and to conduct guerrilla operations from bases in the Lebanese Mountains. The army's main effort is currently directed toward defending the border with Israel and halting operations of the fedayeen commandos attempting to use Lebanese territory as a base for attacks on Israel. Personnel and units are well trained by Middle Eastern standards. Morale has deteriorated following the army's poor performance during an encounter with an Israeli raiding force on 9 May 1970. Personnel have gained some combat experience from several army-fedayeen engagements which took place in late 1969 and 1970.

The Lebanese naval force is capable of fulfilling its mission of patrolling the coast to suppress smuggling and illegal entry, but it is not capable of defending itself or the nation against an attack by other naval forces. Lebanon is totally dependent on foreign assistance for the construction of naval craft. The mission of the air force, an integral part of the army, is to provide close air support to the ground forces in the maintenance of internal security. Despite its small size, the air force performed effectively during the revolts of 1958 and 1961. Only token resistance, however, could be made against the air force of any of Lebanon's neighbors.

Defense budget

Domestic production of military equipment is restricted to quartermaster items such as uniforms and other personal equipment; all other materiel must be obtained from foreign sources. The main non-Communist suppliers of military assistance are France, the United Kingdom and the United States. In 1969 Lebanon obtained rifles from Poland and had previously received trucks from the USSR. Despite press announcements that Lebanon will purchase Soviet arms, Lebanese officials have privately indicated that they intend to purchase US and other Western arms and that the press announcements were issued to placate leftist political demands. In early 1964, when Lebanon became a member of the Unified Arab Command (UAC), the other member states committed themselves to finance in part a modest program of expansion for the Lebanese Armed Forces. In return,

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Lebanon modified indigenous troop deployment to strengthen its military posture along the Israeli border. As long as Lebanon's role in the UAC defense plan remains modest, no monetary problems are foreseen. However, UAC pressure on Lebanon's armed forces to take a much larger, more active part in the fight against Israel could create serious budgetary problems for the Lebanese government.

Budget requests for each of the services are submitted to the Ministry of National Defense, where the military budget is developed. This budget is incorporated into the national budget by the Ministry of Finance and presented to parliament, where it is enacted into law. Defense appropriations for 1966 through 1967 are shown below.

ANNUAL DEFENSE BUDGETS
(Millions of US dollars*)

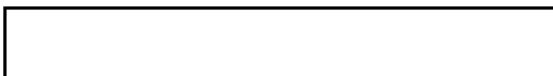
	1966	1967	1968	1969	1970
Defense budget	34.3	39.5	44.1	51.9	55.7
Percent of total budget	17.7	18.9	18.9	21.6	20.7
Percent of GNP	3.4	3.2	3.2	3.6	3.6

Logistics

The logistic system would not be capable of adequately supporting the armed forces in time of war. Most items of supply and all major equipment must be purchased abroad, and reserve stocks would soon be depleted unless constantly resupplied by foreign sources. Supply personnel are few, and they would be unable to cope with the increased requirements of combat. The system functions efficiently, however, for peacetime operations.

Except for ammunition, the quantity of materiel in storage is small. The following reserves are maintained: rations, 30 days; clothing and organizational equipment, 15 to 30 days; POL, 7 days; other categories, 21 days.

**Dollar value converted from Lebanese pounds at the official exchange rate of 3.08 pounds to \$1.00.*



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FOREIGN
RELATIONS

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VII. FOREIGN RELATIONS

Lebanese foreign policy is formulated within the limitations imposed by the country's small size and its dependence upon commerce, and particularly by the conflicting pressures originating in the Muslim-Christian dichotomy. Foreign policy is guided by the *modus vivendi* established by the National Covenant, in which Muslims and Christians agreed that neither would seek to bring Lebanon under foreign control; that Lebanon, although an Arab country, would preserve its cultural ties with Western civilization; and that Lebanon would not take sides in disputes between other Arab states. In return, Lebanon expected its Arab neighbors to respect its sovereignty. Lebanon's adherence to the Arab League and its collaboration with other Arab states constitute recognition of the pro-Arab inclination of the Lebanese Muslims. On the other hand, Lebanon's neutrality in intra-Arab disputes and its opposition to inclusion in any Arab unification scheme reflect the Christians' desire to avoid involvement in pan-Arabism and their fear of being submerged in a unified Arab state dominated by a Muslim majority.

In the larger international context, Lebanon's traditionally friendly relations with the Western powers have stemmed from the pro-Western bent of its Christian population. The Muslim population, largely distrustful of the West and influenced by Arab nationalist "positive neutrality," is strongly opposed to close ties with the West. Thus, despite general opposition to Communism and growing distrust of Soviet motives in the Middle East, Lebanon assumes a nominally neutral position between East and West.

The presence of Palestinian commandos in Lebanon has endangered the Lebanese policy of avoiding open conflict with Israel. Terrorist attacks against Israel increased during 1969 and 1970, as did Israeli retaliations against Lebanese villages suspected of harboring terrorists. There also were occasional encounters between Israeli and Lebanese military forces. The most serious incident occurred on 12 May 1970, when Israeli forces penetrated 10 miles inside Lebanese territory and surrounded six villages for 32 hours in order to clear out a band of fedayeen. The Lebanese Army, aware of its military inferiority, did not interfere on a large scale and as a result sustained few casualties—although in an attempt to save face it claimed to have suffered many. Israel was again censured by the UN Security Council but continued to shell and bomb Lebanese villages and started sending "preventive patrols" across the border. The Israeli actions were intended to induce the Beirut government to crack down on the fedayeen, but instead

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they tended both to erode the government's ability to oppose the terrorists and to increase Lebanon's involvement in the Arab-Israeli conflict.

Relations with Syria and the UAR are of greater importance to Lebanon than those with other Arab states. Relations with Syria have never been good, because Syrian nationalists have never accepted the separation of Lebanon from Syria by the French mandate authorities, and Lebanese nationalists have always been suspicious of Syrian expansionist aims. Another major source of irritation between Syria and Lebanon has been their divergent economic policies. The economic union which existed under the French Mandate ended in 1950 when Syria adopted a policy of economic nationalism and protectionism while Lebanon continued its *laissez-faire*, free trade policy. Whenever there are political disagreements between the two countries, Syria can exert pressure by closing the border, thereby cutting off Lebanese trade with most other Arab states. Another irritant is Lebanon's practice of granting asylum to political refugees from other Arab countries. The most serious problem between the two countries, however, is that of the Palestinian commandos. Since late 1968, members of the Syrian-backed Al-Saiqah organization have been launching raids against Israel from Lebanon with the active support of the Syrian Government. Since the November 1970 coup in Syria, however, relations between Damascus and Beirut have improved greatly, and a permanent commission has been set up to deal with matters of common concern.

Relations with Egypt prior to 1955 did not have the high degree of interaction that was present in Lebanese-Syrian relations. When the Nasir regime adopted an aggressive Arab nationalist policy, however, relations with Egypt became a matter of increasing concern to the Lebanese. These relations deteriorated seriously after the Suez Crisis in 1956, when Lebanon refused to join other Arab states in breaking diplomatic relations with the United Kingdom and France. Relations with both Egypt and Syria reached a very low point during the Lebanese crisis of July 1958, when the newly formed United Arab Republic composed of Egypt and Syria supported antigovernment forces in Lebanon. Egyptian efforts to influence Lebanese policy, both internal and external, continued until 1967. Since the 1967 war Lebanese-Egyptian relations have improved, and the UAR has twice mediated disputes between the Lebanese Government and the commandos—in May and again in November of 1969.

Officially, relations between Lebanon and the United States have been characterized by a friendliness that stems from a long history of US philanthropic and cultural activities in Lebanon and from ties with emigrant

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Lebanese colonies in the United States. Since World War II, extensive commercial relations have developed between the two countries because of the growth of the oil industry in the Middle East and the great expansion of US business interests in the area. US firms, attracted by the *laissez-faire* economic policy of the Lebanese government and the advantageous terms and facilities offered to foreign capital, have located most of their regional offices in Beirut. Lebanon, like the other Arab states, has protested the reduction of the US financial contribution to the United Nations Relief and Works Agency and the sale of American military equipment, especially aircraft, to Israel. Nevertheless, Lebanon has sought US assistance in modernizing and strengthening its own military forces.

Esteem for the US plummeted during the 1967 Arab-Israeli war as many Lebanese were at first inclined to believe Egyptian allegations of US assistance to Israel. The government, however, resisted Arab nationalist pressure to break diplomatic relations with the US and to boycott its products, and instead merely requested the temporary recall of its ambassador. Although most government officials are still personally pro-American, official relations have remained on a low level because of the pressure of Muslim public opinion. With each successive Israeli raid against Lebanon, the prestige of the US, which is regarded as the principal backer of Israel, sinks lower. The US vote in the Security Council censuring Israel for the December 1968 airport raid and also American expressions of concern over the October 1969 disorders involving the commandos were appreciated by officials in Beirut. However, US abstention from the Security Council resolution which reproached Israel for the border incursion on 12 May 1970 was a source of disappointment, as was a similar abstention on the resolution following an Israeli incursion on 4 September.

The special position of France was first formalized in 1740, when its particular interests in the Maronite and other Catholic communities was recognized. This French connection with Levantine Christians, together with the growth of French economic and cultural interests, was the rationale for establishing the French Mandate over Lebanon and Syria following World War I. In its first decade of independence, Lebanon maintained closer relations with France than with any other major power. The French concentrated on maintaining their commercial and cultural interests in Lebanon, a policy which has paid large dividends. After the 1967 Arab-Israeli war France imposed an arms embargo on all combatants, but this did not affect Lebanon. In fact, France has provided more military equipment to Lebanon (including 11 Mirage aircraft) than has any other country since 1957.

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Following the December 1968 attack on Beirut airport, France offered Lebanon "total support" against the Israeli threat.

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Lebanon's official policy of neutrality obliges the government to make a show of treating the Soviet-oriented countries and the Western powers equally. The Soviet Union has considerable prestige among Lebanese Muslims because of its support for the Arab states. Moscow's prestige suffered somewhat because of its failure to come to the aid of the Arabs during the June 1967 war, but it subsequently grew even stronger because of the Soviet re-equipment of the UAR armed forces. The USSR also exerts a degree of influence on the Greek Orthodox Church in Lebanon through the latter's traditional ties with the Russian church. Most Lebanese, however, and especially the Christians, are suspicious of the Soviet Union and other Communist countries and are wary of attempts by those countries to establish closer relations. Soviet efforts in this direction have been concentrated on culture, trade, tourism, and civil aviation. A Soviet cultural center was opened in Beirut in 1963 and a cultural agreement was signed in July 1968. The Soviet Union has offered economic and technical assistance for the Lebanese development plan. Lebanon has rejected most of these offers, despite pressure from leftist political groups to accept them, but it did decide to buy \$1.5 million worth of military equipment from the USSR in October 1971.

Lebanese relations with the Eastern European Communist countries have been correct but cool. Lebanon has diplomatic relations with Bulgaria, Czechoslovakia, Hungary, Poland, Romania, and Yugoslavia at the ambassadorial level, and East Germany maintains a trade mission in Beirut. Regular civil air flights between Lebanon and Communist countries have been established, and banks of several Communist countries have opened branches in Lebanon. Lebanon, following the US lead, voted for Communist China's admission to the UN in October 1971. Official recognition of Communist China was extended in November 1971.

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Support for the United Nations as a guarantor of the peace and security of small nations is a basic foreign policy principle. Lebanon is an original member of the United Nations and participates in most of its affiliated agencies. The 13th session of the General Assembly in 1958 was presided over by former Lebanese Foreign Affairs Minister Charles Malik. The Lebanese delegation generally votes with other Arab League members on questions directly related to Arab affairs; in other matters it tends to support the Western position whenever it can do so without seriously offending neutralists or Arab nationalists.

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VIII. US INTERESTS

Economic aid in the form of a technical assistance program extended by the US to Lebanon between 1951 and 1962 totaled almost \$80 million. At the same time, the US has been the second largest source of military equipment for Lebanon, supplying \$11 million in equipment between 1957 and 1969. In addition, a PL-480 agreement was signed in June 1970 for approximately \$7 million in agricultural commodities.

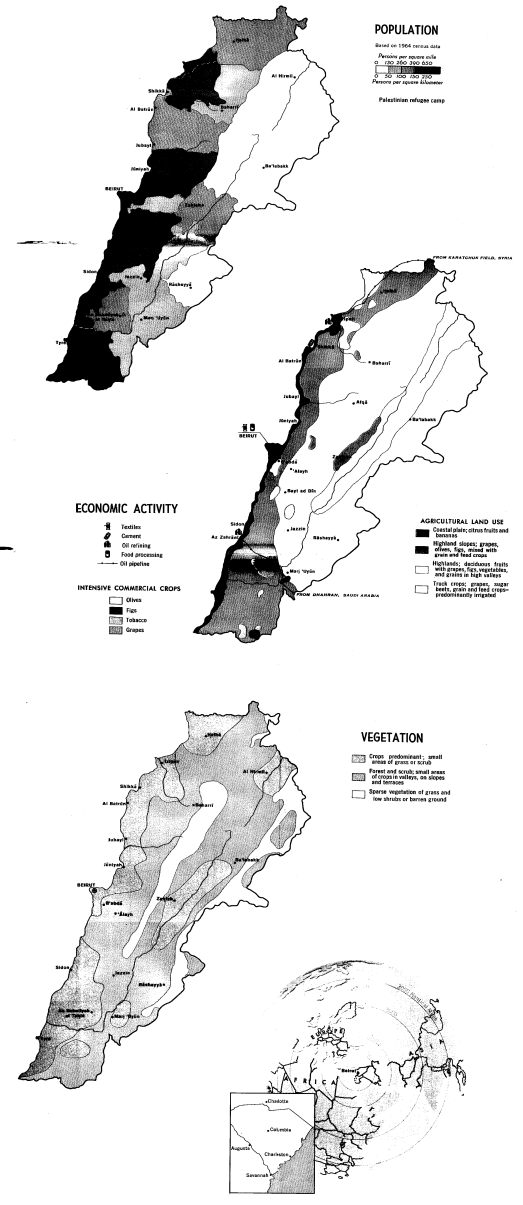
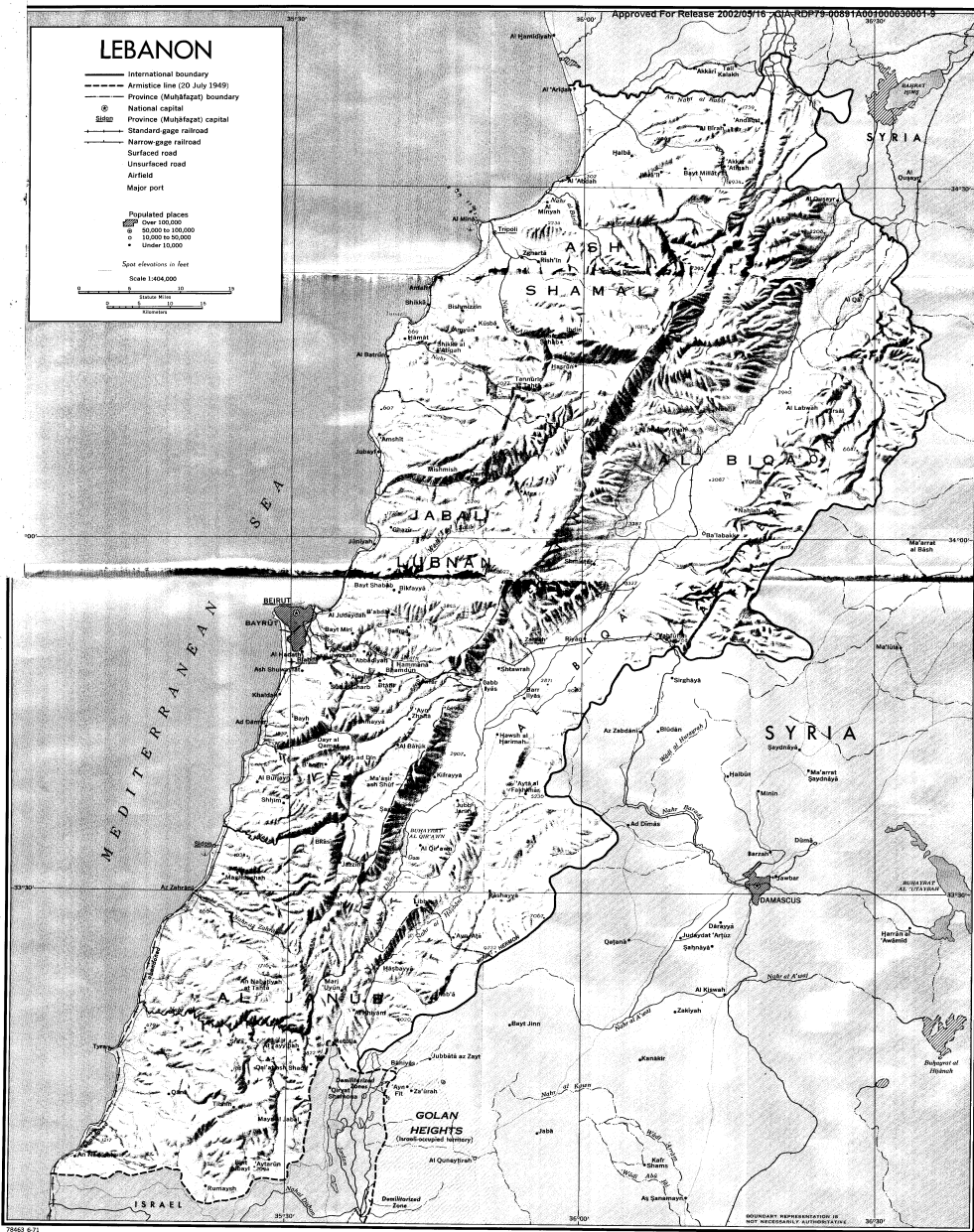
The United States has a special interest in Lebanon as a haven of economic freedom and political stability in the Middle East. These are the circumstances that have led to the establishment of Beirut offices by over 460 US commercial enterprises and 13 US banks. Lebanon places no restrictions on US commercial representation with the singular exception of banking. A restriction has been placed on the establishment of new branch offices in Lebanon, to comply with regulations applying to the entire commercial banking sector following the 1966 Intra Bank liquidity crisis. As a result, banks may no longer be solely foreign-owned, but must be held by joint Lebanese-international affiliates. Bunkering and terminal facilities for the Trans-Arabian Pipeline (Tapline), owned by the Arabian-American Oil Company (ARAMCO), are located at Sidon. A newly negotiated transit agreement provided the Lebanese Government with approximately \$2,750,000 for the first six months in 1971. During this period Tapline was pumping crude oil at only 75% total capacity, and reports for July and August 1971 indicate that crude oil transit had dropped to 50% total capacity. In addition ARAMCO owns and operates the Mediterranean Refining Company in Sidon, with a capacity of 17,500 barrels per stream day. Total US investment in Lebanon is estimated somewhere between \$150 and \$200 million. US imports from Lebanon for the first six months in 1971 totaled \$1.5 million, while exports exceeded \$10 million. Between 1966 and 1970 US imports averaged \$9.8 million and exports to Lebanon averaged \$75 million.

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