



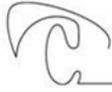
**Clingendael**

Netherlands Institute of International Relations

**Stability and economic recovery after Assad:  
key steps for Syria's post-conflict transition**

Ivan Briscoe  
Floor Janssen  
Rosan Smits





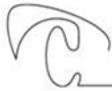
# **Stability and economic recovery after Assad: key steps for Syria's post-conflict transition**

Ivan Briscoe  
Floor Janssen  
Rosan Smits

Conflict Research Unit, The Clingendael Institute

The Hague

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Netherlands Institute of International Relations 'Clingendael'

Conflict Research Unit

Clingendael 7

2597 VH The Hague

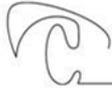
Phonenumber: +31 (0)70 3245384

Telefax: +31 (0)70 3282002

Email: [cru-info@clingendael.nl](mailto:cru-info@clingendael.nl)

Website: <http://www.clingendael.nl/cru>

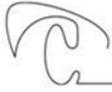
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## Executive summary

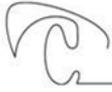
The end-point of Syria's escalating conflict is impossible to foretell, but this does not mean that the international community cannot prepare for the outcome. Should the current regime headed by Bashar al-Assad eventually collapse, crumble or withdraw, the celebrations of the opposition, both peaceful and armed, will quickly be followed by a series of daunting challenges. In fact, Syria is likely to face the greatest transitional dilemmas of the Arab Spring.

The incoming or transitional government in Damascus will confront not just the physical and social destruction of the war effort, as well as its collateral effects on regional stability, but also the deep legacies of a 40-year dictatorship. Its urgent domestic tasks will include disarming militia groups, initiating sweeping political reforms, reforming the security services, reconstructing infrastructure and the state apparatus, and preventing a potentially destructive tide of sectarian sentiment. At the same time, it will be imperative that the new administration generates an economic recovery in order to absorb unemployed fighters and consolidate its fragile legitimacy.

A reform agenda of this size is certain to conflict in various ways with the interests of powerful entrenched groups, the objectives of wartime networks, and the accepted ways of doing business and politics in Syria. This paper is an attempt to map exactly what and who makes up these different sorts of potential 'spoilers'. Adopting a political economy analysis, it explores in depth the ways the regime of the Assads constructed the current system of loyalty in business and social circles, as well as the incentives it offers its supporters. It also traces the effects of war on networks of crime, violence, sectarian affiliation and Islamist radicalism.

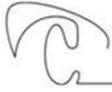
On this basis, and drawing on a number of examples and lessons from other recent post-conflict transitions, the paper then asks what conditions are needed to put in place a sustainable and equitable process of economic recovery. First and foremost, a post-Assad administration will have to adapt to the end-state of the conflict, which may place serious impediments in the path of stabilization through territorial secession, state bankruptcy or regional conflict spillover, including possible foreign military intervention. Real power in this context may well be devolved to the Local Coordination Committees that are now running a number of 'liberated' areas in Syria.

With a focus on the requirements for stability and growth, the paper then identifies five key areas in which a post-Assad administration must make progress, even though it could expect to encounter major resistance:



- demobilizing armed rebel groups and the informal security apparatus;
- dismantling black markets and criminal networks;
- overcoming opposition fragmentation (and preventing an ethno-sectarian drift);
- breaking down the regime's business conglomerates;
- rebuilding and transforming the state.

In response, the paper provides the skeletal outline of a phased approach, which is geared towards achieving lasting institutional and political reform while ensuring that the new government retains support and maximum popular adherence. Though far from being a blueprint for reconstruction, the timeline aims to sketch a realistic approach towards Syria's future that is anchored in the need to pacify spoilers, generate a peace dividend and initiate more profound changes at an opportune moment.



## Introduction

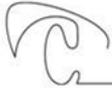
The worsening bloodshed and accumulating atrocities of the Syrian conflict, which began in the wake of the regime's repression of peaceful demonstrations in March 2011, augur a period of extreme volatility in the country and across the region. Venturing a prediction about the conflict's outcome would seem, in this context, to be reckless. The uncertain evolution of battlefield resources and manpower, the possibility of schisms in the regime and the opposition, the potential role of sectarian violence and formation of territorial enclaves, and the positions of allies of both sides as well as, of course, the level and intent of intervention chosen by a deeply divided international community, make up a range of variables that are too fluid and interdependent to allow for any reasonable estimation of how the crisis will end.

It is of course natural that international attention focuses on the complexity of these conflict dynamics, their effects on human rights and regional stability, and the routes towards a possible resolution. However, it is also crucial that in focusing on the crisis as it now stands, policy-makers and analysts do not lose sight of the broader structural conditions in Syrian society that account for the emergence of civil war – and which are pertinent to Syria's future whatever the outcome of the conflict. Only with this broader perspective will it prove possible to establish a durable peace and properly address the grievances and suspicions of the warring parties, difficult as that may now seem.

Drawing on a detailed analysis of Syria's political and economic systems, as well as examples of other post-conflict transitions in polarized societies emerging from authoritarian rule, this paper aims to fill in some of the gaps in knowledge regarding what can and should be done if the Syrian regime were to fall. It takes as its starting point the political economy of Syria, by which is meant the interest and incentives of the key political groups, in power and in the opposition. On this basis, it then asks what can realistically be achieved in any post-conflict transition in terms of ensuring stability, security and economic growth, which can be regarded as among the chief determinants of a new government's legitimacy and success.<sup>1</sup> In so doing, it shares some common ground with *The Day After*, a report drafted by 45 Syrian opposition members that has mapped out a richly comprehensive transitional plan for the country, and was published in August 2012.<sup>2</sup>

At the same time, this paper has more of an economic focus than *The Day After*, and is more concerned with the potential stumbling blocks in any transition. It also comes with two important provisos. First, although it is based on the premise that the current president,

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- 1 World Bank. 2011. *World Development Report 2011*. Washington DC: World Bank; OECD-DAC. 2011. *Supporting Statebuilding in Situations of Conflict and Fragility: Policy Guidance*. Paris: OECD.
  - 2 The Day After Project. 2012. *The Day After: Supporting a Democratic Transition in Syria*. <http://www.thedayafter-sy.org/media/thedayafteren.pdf>



Bashar al-Assad, and his close circle of advisers will eventually step down or be removed, it does not seek to hide the scale of disrepair and chaos that prospective state-builders may find in the regime's wake. And second, for reasons of space this report does not enter into the regional and international spillover of Syria's civil war. However, it has no intention of downplaying the significance of geopolitical calculations and competition affecting the current response to the conflict, as well as for the ways in which a post-conflict state will be composed, shaped and supported by its foreign allies.

### ***Syria's political economy***

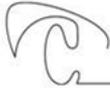
Syria's conflict has degenerated into increasing violence and has fanned out across the national territory, and beyond into Turkey and Lebanon, since the start of 2011. But the evolution of the war, and the strategies adopted by the regime, its opponents and foreign powers to achieve their objectives, should not obscure from view the long history that predated the uprising. Although the Syrian people were clearly influenced by protests in other Arab countries, their own revolt is rooted in the systems of power and privilege that have been established over four decades in Syria. The ways in which the state is structured, the patterns of inclusion and exclusion that governments have engendered, and the possibilities for finding a job or establishing a livelihood, are crucial to understanding to the Syrian public's unrest, and also to assessing the grievances and sensitivities that a future government will have to address in order to prevent this conflict from becoming an entrenched and recurrent pattern.

The chronic malaise in Syria's system of power and privilege is well illustrated by the way economic opportunities are exploited. From the early days of Hafez al-Assad's Ba'thist regime in the 1970s, Syria's economic life has been profoundly and unremittingly politicized through the use of state enterprises, public sector jobs and professional associations as means of distributing patronage to supporters: the effect, in the words of Syria analyst Alan George, has been to create a 'bloated, underpaid, ill-motivated and often corrupt' bureaucracy that makes 'the most mundane administrative task a Kafkaesque torment'.<sup>3</sup>

The liberalization programmes of the past decade under Hafez's son, Bashar al-Assad, eliminated some of the more restrictive regulations on trade and removed a number of state subsidies, bringing the semblance of an economic boom to the country's major cities and agro-export interests. However, evidence of the manipulation of these liberalizing measures in a business climate dominated by a private sector elite with strong political connections is not hard to find. Syria ranks 134th in the world (out of 183) in the most recent *Doing Business* study, which the World Bank uses to measure the regulations and rules affecting entrepreneurs. A decade of free-market initiatives evidently did not prevent Syria from ending up one of the least business-friendly countries of the Middle East. It noticeably lags in two areas, where normal procedures are particularly inefficient, and which are highly

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3 George, Alan. 2003. *Syria: Neither Bread nor Freedom*. London: Zed Books.



susceptible to the influence of friendly state or judicial officials: access to credit and the enforcement of contracts.<sup>4</sup>

This example is one of many that illustrate how the political economy of Syria under Assad rule created a society marked by the divide between insiders and outsiders. Legitimated by the country's vanguard role in Arab affairs and reliant on a massive apparatus of internal security, the regime appeared to be solidly positioned. However, the roots of the current conflict are to be found in the inequities of political and economic distribution. Furthermore, the emergence of a full-blown civil war in Syria over the past year owes much to the adaptation of this system of political and economic distribution under the extreme stresses of conflict.

### ***Insiders, cash and crime***

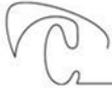
Resentment over the clustering of economic opportunity in the hands of a well-connected elite, in which members of the Alawite minority are over-represented, fed into the first protests against the Assad regime, and has contributed to some of the most important fluxes of the conflict. Unequal economic distribution partly accounts for the initial concentration of the armed resistance in poor, rural, Sunni-dominated areas (in sharp contrast to the social composition of the Egyptian protests), as well as the later shift of the rebellion to the poor areas of big cities once the population flows sparked by conflict displacement began. The victory of a hardline approach in the regime, incorporating use of informal counter-insurgent shock forces seemingly sponsored by private sector individuals, the so-called *shabiha*, also seems to have been determined by the emergence of a regime entourage intent at all costs on not losing its hold on power. Likewise, the choice made by a number of leading Syrian officials to defect, as well as the divergent approaches towards exile, loyalty or resistance shown by various categories of business people in Damascus and Aleppo, presumably owe much to the different experiences of favouritism under the regime.

As the conflict matures, the hidden hand of economics can be expected to assume a more critical and visible role. There are multiple sources of private funding among Syria's business diaspora and these funds are now flowing to many different commanders of the Free Syrian Army (FSA),<sup>5</sup> fostering poor coordination and the possible emergence of warlords. Most significantly, the cost of the state's military offensive against a backdrop of sanctions and steep economic decline – inflation is estimated at 30 per cent, the Syrian pound has sharply devalued, tourism has collapsed and basic public services are in notable decay – raises

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4 The World Bank and the International Finance Corporation. 2012. *Doing Business 2012. Syrian Arab Republic*. Washington DC: World Bank-IFC. According to the report, it takes an average of 872 days to get a contract enforced in Syria, involving a total of 55 procedures.

5 Borger, Julian. 2012. 'Syria crisis: west loses faith in SNC to unite opposition groups'. *Guardian* 14 August 2012.



questions as to how the regime's war effort is to be financed.<sup>6</sup> The comments of a number of insiders indicate that this issue of financial sustainability remains paramount. Former prime minister Riyad Hijab, who defected in August, declared in a press briefing that 'the regime is collapsing, *spiritually and financially*, as it escalates militarily' (authors' italics).<sup>7</sup> King Abdullah of Jordan also pointed to the risk of the Syrian state's impending bankruptcy in an interview with CBS news in August, indicating that the Central Bank now had between five and seven billion US dollars in reserves, and was spending one billion a month on waging war.<sup>8</sup> Although these statistics are impossible to verify (official economic statistics have not been published since May 2011), there is evidence pointing to a firesale of Syrian state-held gold on international markets.<sup>9</sup>

Should the regime continue its military fight while approaching bankruptcy, the civil war could be expected to chart an extremely dangerous new course. The failure to honour wages to around two million public sector workers could entail a mass mobilization of popular discontent that would mark a culminating moment of the resistance campaign: this possibility has already been noted by various Syrian sources.<sup>10</sup> However, public insolvency might also complete the process of outsourcing war to privately controlled militia, which fund themselves either through war economies (plunder, kidnapping, organized crime, border control and protection rackets) or through foreign sponsorship in arms and cash, or both. Should this extreme scenario unfold, by the time the conflict eventually ceases the state's financial reserves will have disappeared, most public institutions will have withered, and the country could be expected to stand under the control of territorial-based commanders enjoying foreign patronage, with whom the international community would be obliged to negotiate the terms of entry for any peacekeeping mission. Syria would, in this instance, have become a failed state, resembling in some ways the conditions of post-Taliban Afghanistan.

### ***Preparing for transition***

Without discounting this bleak possibility, the international community can still do much to prepare for eventual responsibilities in a transitional, post-Assad Syria. Even if this prospect still appears some way off, potential foreign donors can assess, on the basis of the country's conditions and other cases of post-conflict recovery, the best means to create opportunities

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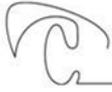
6 Abboud, Samer. 2012. *The Syrian Economy: Hanging by a Thread*. Arab Politics Commentary paper. Washington DC: Carnegie Endowment for International Peace.

7 *Guardian*. 2012. 'Syrian regime is on brink of collapse, says former PM Riyad Hijab'. 14 August 2012.

8 Interview with King Abdullah II of Jordan on CBS news, 7 August 2012. See <http://www.cbsnews.com/video/watch/?id=7417386n&tag=cbsnewsMainColumnArea>

9 Reuters. 2012. 'Syria selling gold reserves as sanctions bite: sources'. 18 April 2012.

10 See, for example, Reuters. 2012. 'Exclusive: Syria prints new money as deficit grows: bankers'. 13 June 2012. According to one Syrian banker cited in the report, 'People are getting their wages and there are no complaints if they are paid at the end of every month. If we reach a state when they are not paid there will be a crisis'



for unemployed people or former belligerents, restore the workings of key state bodies responsible for the management of the economy, and target support to particularly deprived and restless areas, thereby generating a certain level of popular legitimacy and co-optive power in the early months and years of a new government.

However, the nature of Syria's entrenched political economy also points to a broader and deeper set of challenges. As this paper will show, economic life has traditionally been subordinated to the expedience of regime survival and consolidation. Entrenched systems of privilege, patronage and limited access provided the conditions in which sectarian divisions, and the discourse of exclusion, have been fostered. Eliminating these systemic preferences will be crucial to a successful transition. Yet this aim must be finely balanced against the need to maintain a functioning state, for which a certain degree of patronage will remain a *sine qua non*, while also avoiding the creation of new systems of preference and privilege that scupper the possibility of long-term stability. Rescuing Syria and its neighbours from war may not be a matter of economic planning, but the careful handling of economic affairs and institutional transformation in any transition from the Assad regime will be crucial to preventing the country becoming one of the world's recurring conflict zones, and a catalyst for grave regional insecurity.<sup>11</sup>

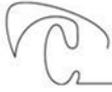
### ***Structure of the paper***

The next chapter provides a detailed historical overview of the evolution of Syria's political economy since 1970, and concludes with an examination of its role in the outbreak and evolution of the conflict. Chapter three turns the focus to key issues for a new government and international supporters in the event of a downfall of the Assad regime. It considers the possible conditions of the country at the conflict's end-point, as well as the lessons from similar post-conflict episodes (above all Bosnia and Iraq), before listing five areas that will have to be addressed as a matter of priority if normal economic life, political stability and the benefits of a 'peace dividend' are to be assured. A brief last chapter provides a possible timeframe for transitional policies. Lastly, two appendices illustrate the family tree of the Assad regime, and provide a glossary of key Syrian political and business figures.

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11 According to the World Bank, 90 per cent of civil wars that began between 2000 and 2010 occurred in countries that had experienced a previous major conflict during the years since 1945. Indeed, until Syria and Libya, every civil war that had begun since 2003 was the resumption of a previous conflict. See World Bank. 2011, op. cit. p., 58.





## Syria's political economy: background and development

A key characteristic of many authoritarian regimes is a tightly knit collaboration between the political elite and the business community. The aim of this collaboration is to safeguard the privileges of both by promoting a style of economic development that suits their interests – and which very often features use of monopoly privileges and other forms of rent-seeking. Historically, Syria is no exception. However, even more so than in other Arab states such as Egypt, where state–business ties also primarily sought out ventures for mutual profit, in Syria the state's main concern has been its own survival – even if this came at the expense of the country's economic health. Indeed, the Syrian regime has encouraged private sector development during the period of liberalization since the early 1990s, and new economic institutions have been established since 2000, but never to the extent that they could threaten the position of those in power. True economic reform has simply been too much of a risk for the Syrian minority regime, as it would also open the way to substantive liberalization in the political sphere.

The political economy in Syria has been 'heavily tainted by the 'rural minoritarian'<sup>12</sup> nature of the Assad regime since 1970, the year Hafez al-Assad seized power, and the regime's preoccupation with securing its own survival. Over four decades, the ruling family has carefully crafted an intricate crony-based patronage system, consisting of a number of (first informal, then formal) networks that monopolize large sectors of the economy, but above all has served to keep the Assad regime in place. The stakeholders in these networks – the government, the security apparatus and the business elite – share the wealth of a country that has been categorized as a lower-middle-income country by the World Bank.<sup>13</sup>

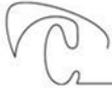
The poor condition of the Syrian economy (as well as many parts of civilian life) can largely be explained by the political calculations and strategy of the Assad regime. We can roughly divide the political economy of the Assad era into three parts:

- i. the period after Hafez al-Assad's seizure of power in 1970, dictated by a state-led 'socialist' economy and co-optation of (parts of) the business class;
- ii. the late 1980s and the 1990s, marked by Syria's first steps towards liberalization of the economic sphere as well as by the mushrooming of state–business networks;

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12 Haddad, Bassam. 2012a. *Business Networks in Syria. The political economy of authoritarian resistance*. Stanford: Stanford University Press, p. 2.

13 <http://data.worldbank.org/country/syrian-arab-republic>, accessed 7 August 2012.



- iii. the period after 2000, under the rule of Bashar al-Assad, who introduced a number of economic reforms but also fostered a business elite with extreme loyalty to the regime.

Across these periods, successive but overlapping stages characterize Syria's political economy. First, *bureaucratic authoritarianism* resulted in a large public sector and severe repression of civil life, with the exception of pro-regime institutions and organizations. Second, *controlled corruption*, namely tolerance of corrupt practices and collusion as a means to exert political control and ensure regime survival. And third, particularly under Bashar al-Assad, we find *corrupted liberalization*, or the introduction of free-market measures, albeit marked by continuing political manipulation of business life, cronyism and collusion.

### ***The rise of Ba'th Party rule and Hafez al-Assad***

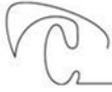
The rule of the Assad family is a direct outcome of the rise of the Ba'th Party in the 1950s and 1960s in Syria, Iraq and other parts of the Fertile Crescent. The Party combined pan-Arab nationalism, anti-imperialism and socialism into a distinct secular ideology that was particularly appealing to the lower-middle classes and marginalized communities. After a tumultuous period following Syria's independence from its French mandate in 1946, the Ba'th Party came to power in 1963 and almost immediately positioned its members in key military and security posts. In 1970, after years of internal strife dividing the Party, former Defence Minister Hafez al-Assad staged a successful coup and replaced the Ba'th's collective leadership with an authoritarian and highly personalized regime that relied heavily on the security apparatus.<sup>14</sup> Concerned with securing regime survival, and intent on demonstrating pan-Arab military competence, particularly vis-à-vis Israel, Hafez launched a huge build-up of the Syrian armed forces. By the early 1980s, Syria was devoting over 20 per cent of gross domestic product (GDP) to military expenditure.<sup>15</sup>

The Ba'th Party remained the *hizb al-qa'id* (the leading party) in the following decades, and incorporated other political tendencies such as the Communists and Nasserists. The Party also fostered a radical leadership with a rural Alawi background, and its early efforts to end exploitation by the economically dominant Sunni community were particularly attractive to

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14 Syria has numerous security services and intelligence agencies such as the Political Security and Military Intelligence, which are all subdivided into several branches. The agencies operate virtually independently of the judicial and penal system. It is estimated that one in every 150 adult Syrians works for one of the security services. George, A. op. cit. p., 2.

15 Cleveland, William. 2004. *A History of the Modern Middle East*, Oxford: Westview Press, p. 404. The armed forces grew from 50,000 in 1967, to 225,000 in 1973, and to over 400,000 in the early 1980s. In the 1970s, the Soviet Union emerged as Syria's principal arms supplier. More recent figures from the World Bank indicate that Syria now spends around 4 per cent of its GDP on military expenditure. Annually, over \$250 million is spent on the import of weapons. <http://www.tradingeconomics.com/syria/military-expenditure-percent-of-gdp-wb-data.html>, accessed 27 August 2012.



those with limited resources, particularly the Alawi, Druze and Christian minorities from humble rural origins.<sup>16</sup> In response to this history of oppression and majority rule, in the first years of his presidency President Hafez al-Assad (henceforth: Hafez) swiftly ‘Alawized the helm of the regime’<sup>17</sup> and effectively co-opted and promoted the other (Druze, Christian and Isma’ili) minorities. The military obtained a privileged position for eliminating the forces – particularly the urban notables – who were capable of threatening the minority regime. Syrian history shows that Hafez was not hesitant to use brutal repression to crush criticism and dissent.<sup>18</sup>

Nevertheless, it would be a mistake to depict Hafez’s regime as dependent for its survival solely on its sectarian base and violent repression. The Ba’th Party used rural and sectarian identity to mobilize support, but it also knew it had to socially and politically accommodate the urban (Sunni) masses. The Ba’thist leadership smartly broadened its array of constituents by offering economic opportunities to non-minority and non-rural communities as well, such as the ‘conservative urban-based Sunni business community with firm ties in the *souq* (the traditional market of manufacturers and artisans)’.<sup>19</sup> Despite the historical mistrust between the Alawi and Sunni communities, the regime aligned itself with key members of the Sunni business elite and built partnerships based on shared economic and political interests.

Henceforth, Syria’s private sector was brought into the political establishment via informal state–business networks (*shabakat*), comprising select business actors from multiple sectarian backgrounds, military, security and bureaucratic personnel, and other actors connected to the regime via community or family ties, among whom doctors and engineers. The ‘new rentier bourgeoisie’<sup>20</sup> that emerged in the 1970s was allowed to accumulate capital, but only via its covert ties to the regime, including the security apparatus. This state–business collusion undoubtedly led to gross misallocation of resources, and a proliferation of non-productive and non-labour-intensive business ventures. Corrupt and illegal practices<sup>21</sup> spoiled Syria’s economy, but ‘bought’ the Assad regime the loyalty that would ensure its survival for decades to come.

Hafez’s efforts at co-optation were not limited to the business elites. Oil revenues allowed the regime to dramatically expand the public sector. Deemed the ‘leading economic sector’<sup>22</sup> by

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16 International Crisis Group. 2004. *Syria Under Bashar (II): Domestic policy challenges*. ICG Middle East Report no. 24, p. 1.

17 Haddad, B. op. cit. p. 44. Hafez relied heavily on a *jama’a* (circle) of personal followers, often his kin, who he appointed to crucial security and military positions.

18 Hafez al-Assad created what became known as the ‘wall of fear’. The Syrian regime is notorious for using national security concerns as a pretext to silence any form of criticism. See, for instance, Human Rights Watch. 1995. *The Price of Dissent*. HRW/Middle East Report.

19 Haddad, B., op. cit., p. 44.

20 This ‘bourgeoisie’ mainly consisted of the traditional Sunni business merchants, marginalized by socialist Ba’th policies in the 1960s. See Haddad, op. cit., p. 2.

21 One exemplary case is that of Rif’at al-Assad, Hafez al-Assad’s younger brother. Throughout the 1980s, he ran a lucrative smuggling and black market network that included army generals, security sector officials and private partners. Cleveland, W. op. cit., p. 402.

22 Haddad, B. op. cit., p. 28.



Hafez, its growth allowed the regime to employ Syria's large workforce in bulky state enterprises and the bureaucracy, provide benefits to the urban working classes, and ensure steady job generation. Importantly, besides offering economic opportunities, the regime also created a 'large corporatist system of hundreds of popular organizations, professional associations and trade and labour unions for all kinds of professions, which rapidly became instruments for personal enrichment and mechanisms for political surveillance'.<sup>23</sup>

Though covert and informal, the elaborate patron–client system created by Hafez's regime seeded a widespread and durable network of economic and political allegiance. By giving controlled leeway to the private sector and by routinely providing distinctions and privileges, Hafez effectively ensured the loyalty of the business elite within a state-centered 'socialist' economy. Additionally, through the expanded public sector, lower social strata were also incorporated to the regime's clientelist web as they essentially 'connected their livelihood to the state'.<sup>24</sup> This social-economic construct, combined with high levels of repression in public life, led Syria into a period of stability.

Although the 1970s were euphemistically labelled the period of 'social peace' by the president, tensions were rising beneath the surface, and an opposition movement emerged that could potentially overthrow the government. The movement was led by young militants associated with the Syrian branch of the Muslim Brotherhood, and was concentrated in the old commercial cities of Aleppo, Homs and Hama. It turned against Syria's secular, corrupt and repressive regime that in their perception catered to rural and minority groups at the expense of the once-dominant urban (Sunni) families. In the late 1970s, various anti-regime militant groups joined forces and established the Islamic Front, which had the clear aim of overthrowing Hafez's regime. In the early 1980s, the Front managed to attract a 'cross-section of disaffected Syrians who had also come to resent the regime's authoritarianism, favoritism and corruption'<sup>25</sup> in the wake of a severe economic crisis.

In 1982, the militants took control of parts of Hama. The Syrian military, then under the direction of Hafez's younger brother Rif'at, responded by launching a deadly campaign against the opposition and the civilian population in the city, killing nearly 10,000. The regime managed to crush the rebellion and preserve itself, and an official warning went out to other potential dissidents that 'this regime would use all the force at its disposal to remain in power'.<sup>26</sup> Above all, however, the 'triumph' over the rebels in Hama showed that 'the regime's authority rested not on popular consent or civilian institutions, but on the loyalty of the armed forces. As a result, the regime became more repressive and more remote, relying increasingly on the 'orchestrated adulation' of the president.'<sup>27</sup>

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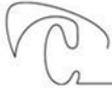
23 International Crisis Group. 2004. *op. cit.*, p. 3.

24 Haddad, B. *op. cit.*, p. 58. Public sector wages are so low, that corruption and collusion became virtual necessities. International Crisis Group. 2004, *op. cit.*, p. 11.

25 Cleveland, W. *op. cit.*, p. 406.

26 *Ibid.*, p. 407.

27 *Ibid.*



### ***Towards liberalization: 'Change within continuity'***

Throughout the 1970s, the regime was able to maintain its sizeable public sector and state spending thanks to substantial oil and rent revenues.<sup>28</sup> The 1986 drop in oil prices, however, caused a near-collapse of Syria's state-centred economy, as it painfully exposed the lack of productivity in the country's heavily subsidized public sector. Additionally, the Ba'thist state in the early 1980s attempted to halt the import of 'luxury goods', and gradually stopped the provision by the state-run bank system of foreign exchange to private importers. The scarcity of foreign exchange led to shortages of basic consumer goods and industrial and agricultural supplies, and subsequently to a sharp rise in black-market activity and devaluation of the Syrian pound.<sup>29</sup>

The year 1986 is commonly regarded as the starting point of Syria's liberalization period, referred to as the *infatih* (opening), that effectively continued until 2011. In the second half of the 1980s, the regime was forced to abandon its five-year plans<sup>30</sup> and shift its economic focus from labour to business. In 1991, Hafez announced the strategy of economic pluralism (*al-ta'addudiyya al-iqtisadiyya*), whereby the private sector was officially introduced as complementary to the public sector. The regime, however, insisted on gradualism as the guiding principle behind economic reform and liberalization. In the early 1990s, exporters were permitted to keep most of their foreign currency, and several government monopolies on the import of and trade in certain products were lifted. The tax law was reformed, and in 1991 new rules allowed private domestic and foreign investment.<sup>31</sup>

In essence, the period of liberalization formalized the role of the private sector and thus the previously informal ties between state and business. In the early 1990s, a number of businessmen entered public life through parliament and 'elections' on to the boards of the Chambers of Commerce and Industry. Meanwhile, and on a much larger scale, state officials and their offspring (the *awlad al-mas'ulin*, or 'children of those responsible') entered the private sector. State investments brought together private partners and state officials in business ventures that often provided little added value to the economy. A 'new class' (*al-*

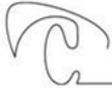
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28 How much of the oil revenue is incorporated into the country's yearly budget is unknown. It is safe to assume, however, that the regime disposes of the revenue in a manner that sustains its ability to make high-level policy decisions independent of other social forces. Haddad, B. op. cit., p. 28.

29 Perthes, Volkert. 1996. 'The Private Sector, Economic Liberalization and the Prospects of Democratization: the case of Syria and some other Arab countries', in Salame, Ghassan (ed.). *Democracy Without Democrats? The renewal of politics in the Muslim world*. London: IB Taurus, p. 245.

30 Since 1986, in practice (though not officially) five-year plans have been replaced by annual general budgets as the government's principal mechanism of central planning. Haddad, B. op. cit., p. 159.

31 The scope of liberalization measures was limited, and the translation into practice even more challenging. For instance, industrialists were allowed to import raw materials but only through public sector companies and provided they paid the state companies with foreign currency, which private industrialists could not afford, because of the foreign currency shortage. Perthes, V. op. cit., p. 246.



*tabaqa al-jadida*, also referred to as *hadithi al-ni'ma*, 'those with new wealth') emerged, that 'constituted a mere one per cent of Syria's population, but wielded tremendous wealth and power'.<sup>32</sup> Indeed, the liberalization measures of the early 1990s led to a peak in economic growth, but to an even greater degree they resulted in unprecedented levels of corruption, misallocation of public goods, collusion and cronyism.<sup>33</sup> Moreover, the 'unfettered operation of these networks was facilitated by the absence of checks and scrutiny either inside the country (supervisory mechanisms) or outside the country (international financial institutions or donors)'.<sup>34</sup>

The most powerful actors in the networks of the 1990s were the state officials who went into business, followed by the 'private' businessmen who owed their fortunes directly to their political allegiance. Below them were hundreds of military generals, top civil servants, heads of labour unions and many others, who owed their and their families' privileged position to loyalty to the regime. But with the mushrooming of state-business networks, the 'new entrepreneurs' began to crowd out traditional businessmen, especially in the commercial and transportation sectors'.<sup>35</sup> Until 2000, more than half of new investments went to service-oriented sectors, such as transport and tourism. The traditional urban business class of Damascus and Aleppo gradually lost ground to the new class of well-connected state cronies.

Though many opposed this, the regime and its allies controlled all the complex entry conditions (i.e. all forms of permits, licensing and quotas) for private sector activity. Conversely, the members of state-connected economic networks accumulated a large portion of their capital by transgressing the very laws and regulations that others had to abide by. Under pressure from the larger business community, the government did launch recurring 'anti-corruption campaigns', but these never reached 'high' enough to address the regime's inner circle. Moreover, the state-business networks could always count on the back-up of the security services, including the widely feared *mukhabarat* (secret service).<sup>36</sup>

After a brief economic revival following the 1991 liberalization measures, economic growth continued to decline throughout the 1990s. Notwithstanding certain environmental variables such as oil resources and drought, the dominance of rent-seeking state-business networks largely accounted for Syria's feeble economic growth. Under Hafez, 'corruption had become a central feature of the system, affecting all administrative levels and regulating entire facets of the economy'.<sup>37</sup> The intertwining of the business and the political realms prevented the

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32 Haddad, B. op. cit., p. 63.

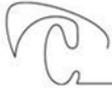
33 For example, the government reduced the amount and quality of certain subsidized goods, forcing consumers to seek unsubsidized alternatives, which were in turn produced by private sector businesses with ties to the regime. Another example includes the ban on certain high-demand imported goods, such as cigarettes, resulting in the smuggling and black-market sale of those products by figures in authority. Ibid., pp. 134-135.

34 Ibid., p. 31.

35 Ibid., p. 98.

36 The regime also funded what was called the Defence Brigades (*saraya al-difaa*), who acted above the law and had a directly vested interest in regime survival and cronyism. Hafez's younger brother Rif'at headed the Brigades for some time. Al-Haj Salih, Yassin. 2012. *The Syrian Shabiha and their State*. Heinrich Böll Stiftung/Middle East, p. 3.

37 International Crisis Group. 2004, op. cit., p. 11.



Syrian state from undertaking deep economic reform, as a reform process would greatly undermine its system of patronage and, above all, threaten its survival.

### ***After 2000: Bashar al-Assad and Syria's Social Market Economy***

Throughout much of Hafez's rule, the regime's general thinking was that private money did not directly pose a threat to the regime thanks to the system of *shabakat* (networks) and the powerful backing of the security system. Before the turn of the century, however, certain regime strongmen – particularly the 'old guard' in the public sector and state-owned enterprises – were expressing renewed ambivalence regarding parts of the private sector that wielded 'too much' power. In the late 1990s, the ailing Hafez had started to pave the way for his son's succession. The increasing discomfort that some of the regime's strongmen felt with regard to the economic elite, combined with the prospect of the young and inexperienced Bashar coming to power, accounted for Hafez's decision to start diverting the most lucrative economic opportunities and privileges to a small number of individuals who were very close to the presidential family – such as Rami Makhlouf<sup>38</sup> and his brothers – while opening other economic opportunities to a larger segment of the business community. In the final years of his rule, Hafez also recruited 'new and younger cadres to the military and security apparatus'<sup>39</sup> who were not as wedded to the dominant economic networks, all in preparation for the unstable political environment that was likely to ensue upon his death.

By the time Hafez died in 2000, businessmen with direct and firm ties to the ruling family were well established. At the age of 34, Bashar al-Assad (henceforth: Bashar) succeeded his father. Bashar came to the scene as a modern reformer, intent on reforming the stagnant economy he inherited from his father.<sup>40</sup> In his inaugural address, Bashar pointed to the need for economic reform and the importance of accountability.<sup>41</sup> In his first two years in power, orders were given to cast aside several members of the established economic networks, and arrest many others on charges of corruption.<sup>42</sup> Bashar also replaced 'three quarters of the roughly 60 top political, military and administrative office holders'.<sup>43</sup> The reshuffle, however,

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38 Hafez had distributed considerable privileges to the family of his wife, Anisa Makhlouf (see Appendix 1 for family tree). The Makhlouf family stems from the prominent Alawi Haddad tribe. Many members of the Makhlouf family advanced within the regime's bureaucracy, security apparatus and business. Hafez understood that the Makhlouf family could be counted on for unconditional support.

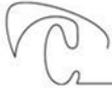
39 Haddad, B. op. cit., p. 115.

40 At the time of Bashar's succession, Syria's economy was suffering from an inability to provide job opportunities for young generations entering the labour market, high unemployment rates and a growing informal sector. Baroutt, Muhammad Jamal. 2011. *The Past Decade in Syria: the dialectic of stagnation and reform* (part 1 of 5), Research Paper Arab Centre for Research and Policy Studies, Doha Institute, p. 7.

41 The inaugural speech can be found at: [http://www.presidentassad.net/SPEECHES/BASHAR\\_ASSAD\\_2000\\_INAUGURATION\\_SPEECH.htm](http://www.presidentassad.net/SPEECHES/BASHAR_ASSAD_2000_INAUGURATION_SPEECH.htm), accessed on 12 August 2012.

42 Haddad, B. op. cit., p. 26.

43 Ibid., p. 11.



had limited effects, since its main purpose was to consolidate Bashar's rule instead of tackling corruption, economic malpractice and collusion. Moreover, Bashar, even more so than his father, invested in the 'police state'.<sup>44</sup> He promoted a new and less experienced generation in the security apparatus, instilling 'greater discipline and more 'red tape''.<sup>45</sup>

In the economic realm, Bashar brought new faces into key posts, among them Abdullah al-Dardari,<sup>46</sup> tasked with overhauling the outdated state-led banking system and expanding free trade zones across the country. In 2005, during the Ba'th's Regional Command Conference, Bashar made the announcement that Syria would adopt a 'Social Market Economy', which was followed by a wave of new legislation and the establishment of a number of new financial institutions. In 2004, the first private banks had already opened their doors, and in 2005 the Syrian Stocks and Financial Markets Authority was established, to oversee the Damascus Securities Exchange, opened in 2009. Bashar also legalized private currency exchange, which led to the establishment of two private holding companies – Cham Holding and Syria Holding – in 2007.<sup>47</sup> In spite of over 1,000 new laws and decrees aimed at promoting market reforms, even the government has admitted that certain limits to the functioning of the new institutions remain, particularly in terms of access, banks' willingness to lend and civil servants' interpretations of the regulations.<sup>48</sup> Generally, the 'new institutions and agencies lack the capacity, authority or will to implement policies. There is a marked dearth of elite consensus, and willingness to 'change the rules of the game'.<sup>49</sup>

Bashar's liberalizing measures opened the gates to the private sector, but only a select group of close allies was allowed to 'reap the fruits'.<sup>50</sup> In essence, the 'private' sector in Syria is not 'private', as most assets are owned by individuals who either occupy official state posts or are close to relatives of top regime officials. Under Bashar, the economic elite is drawn from the same ranks as the regime leadership.<sup>51</sup> Many of them are united by direct family ties, and

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44 Since the early years of his rule, Bashar has trusted the (predominantly Alawite) security services more than the national army. International Crisis Group. 2012a. *Syria's Mutating Conflict*. ICG Middle East Report no. 128, p. 4. It is argued that this led to the more 'militia-style' nature of Syria's security apparatus, in which ultra-loyal *mukhabarat* and *shabiha* defend the core of the regime and their interests. See al-Haj Salih, Y. op. cit., p. 3.

45 Ibid.

46 Al-Dardari was one of Bashar's closest aides, and as the Deputy Prime Minister for Economic Affairs he headed the economic liberalization process from 2005 onwards. See also Appendix 2: Key individuals in Syria's political economy.

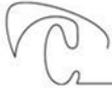
47 Haddad, B. op.cit., p. 26.

48 Oxford Business Group interview with Abdullah al-Dardari, 2011: <http://www.oxfordbusinessgroup.com/news/opening-obg-talks-abdullah-al-dardari-deputy-prime-minister-economic-affairs>

49 Haddad, Bassam. 2011. 'The Political Economy of Syria: Realities and Challenges', Middle East Policy Council, p. 1. <http://www.mepc.org/journal/middle-east-policy-archives/political-economy-syria>, accessed 27 August 2012.

50 Syria's most influential families are the Assads, Makhloufs and Shalish. Approximately 10 other families are part of the regime's inner circle via marital, economic, sectarian and political ties. Well-known families in Syria include the Nahhas, Sharabati, Khaddam, Tlass, 'Aqqad, D'abul, Nasir, 'Attar and Deeb families. Haddad, B. op. cit., p. 216, n. 47.

51 Rami Makhlof is probably the best-known case in point. Another example is Firas Tlass, son of the former Defence Minister Mustapha Tlass. Both Rami Makhlof and Firas Tlass are the sons of 'first generation' power barons. See



many (though definitely not all) are Alawites. The individuals are in control of public sectors such as oil, but have derived most of their wealth from lucrative private sector markets including real estate, telecommunications, banking, information technology, transport, tourism, etc.<sup>52</sup> The growth in the largely service-oriented sectors came at the expense of the manufacturing and higher-value sectors of the economy, whose deterioration has continued under Bashar's presidency. Although exports have become markedly more diversified, trade remains highly concentrated in commodities and agricultural goods.<sup>53</sup>

The encroachment of individuals like Makhoul into many sectors of Syrian economy, and the privileges they enjoy due to their connections with the regime, has led to opposition among the wider business community. Indeed, the promotion of regime loyalists who 'took over' the economy has pushed aside other powerful actors, such as the Sanqar family.<sup>54</sup> However, Syria's independent business people remain fragmented across different sectors, as well as politically and geographically, and are unable to compete against regime cronies. This fragmentation is largely the result of the absence of any institutional representation<sup>55</sup> and the widely felt fear of regime reprisals. Businessmen usually 'work in various sectors simultaneously to avoid complete collapse in the event that one of their ventures fails due to a government crackdown or excess supply'.<sup>56</sup> In Syria, the extended family represents the most trustworthy social framework for most entrepreneurs.

Under Bashar's presidency, state-business networks have become increasingly narrow, but ever more powerful. The new networks compete directly with the traditional bourgeoisie of Damascus and Aleppo that Hafez had so studiously tried to co-opt.<sup>57</sup> The distribution of spoils by the Assad regime to a select group of businessmen, who have bent the system to their will and appear to have been deeply involved in the implementation of the security crackdown since last year,<sup>58</sup> is considered by some observers to represent a weakening of the

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<http://syrianrevolutiondigest.blogspot.nl/2011/07/tomorrows-leaders.html>, accessed 10 August 2012. See also Appendix 2.

- 52 Makhoul's business empire is said to cover 60 per cent of Syria's economy. Although he announced in late 2011 his departure from business to devote his time to charity, Makhoul remains the symbol of the regime's cronyism and corruption. Only the agricultural sector has historically been in private hands (98 per cent privately owned). Haddad, B. 2012a. *op. cit.*, p. 160.
- 53 Lim, Jamus Jerome and Saborowski, Christian. 2011. 'Export Diversification in a Transitioning Economy. The Case of Syria'. World Bank Policy Research Working Paper 5811. Washington DC: World Bank.
- 54 The Sanqar family, headed by Omar Sanqar, is a well-established Sunni family who benefited from co-optation under Hafez's rule, but experienced increasing rivalry with members of the top business elite under Bashar. See also Appendix 2.
- 55 Syria's wider business community regards the Chambers of Trade and Commerce as vehicles of the regime rather than representative bodies. Business people have been too fearful to set up independent institutions.
- 56 Haddad, B. *op.cit.*, p. 81.
- 57 International Crisis Group. 2004. *op. cit.*, p. 11.
- 58 For example, it is speculated that Rami Makhoul helped secure the appointment of his brother Hafez as the Head of the Damascus department of State Security, so that he could monitor the movements and communications of rival businessmen. Another (unconfirmed) report refers to Riad Seif, an MP who submitted a report to parliament on the irregularities in Syriatel (Syria's largest telecommunications provider). Rami Makhoul was allegedly involved in the decision to



regime. However, though impossible to verify, it is safe to assume that the Assad family is profiting from many of their private sector ventures.<sup>59</sup>

### ***Implications for the current crisis***

The Syrian regime has found in the private sector a 'reservoir of potential and willing partners for mutually beneficial alliances and economic initiatives'.<sup>60</sup> In response to severe economic crisis in the 1980s, a liberalization process was launched that eventually bred a narrow economic elite consisting of government members and bureaucrats, businessmen and security sector officials, who have tied their fate entirely to that of the Assad regime. The collaboration between repressive political elites and happily unaccountable business actors, and the loyalty to the *status quo* it generated, has functioned as an effective survival mechanism for the regime. It probably explains why the Assad regime has not collapsed to date.

However, the social effects of the state–business nexus of power are detrimental, and have become all too apparent in the second half of this decade. For the poorer strata of society, the economic reforms implemented by Bashar have significantly reduced crucial safety nets, most notably subsidies on basic necessities and the provision of jobs. The 'market', in spite of 'lucrative' business ventures and a flow of private sector investment, has failed to keep most Syrians out of poverty and hardship, and is too small to absorb the annual 230,000 entrants into the labour market.<sup>61</sup> Moreover, economic exclusion from that 'market' for smaller business actors as a result of their lack of access to regime members has pushed much economic activity into the informal sphere. The new business elites emphasized urban development over that of rural areas; this, coupled with years of drought and the mismanaged water-supply system, led to the migration of hundreds of thousands of people from the countryside to 'over-populated and under-serviced cities'.<sup>62</sup> Deep 'economic deprivation, authoritarian rule and 'elite capture of public policy''<sup>63</sup> have created a 'pressure cooker effect'.<sup>64</sup>

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imprison Seif for several years. More recently, it has been reported by the Syrian opposition that members of the top business elite, particularly those from the Alawi community, are funding *shabiha* militias for protection. <http://syrianrevolutiondigest.blogspot.nl/2011/07/tomorrows-leaders.html>, accessed 5 August 2012

59 Ibid. It is also rumoured that Bashar's mother has urged her son not to clip the wings of relatives, such as Rami Makhlouf, who is Bashar's first cousin.

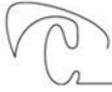
60 Haddad, B. op. cit., p. 62.

61 Haddad, B. 2011. op. cit., p. 7.

62 Ibid., p. 1, p. 7 and p. 11. Since 2005, Syria has seen a 10 per cent increase in poverty, concentrated mostly in the north-east and south. To keep its unemployment rate under 15 per cent, it needs to create more than 2 million jobs in the next five years.

63 That is, the increasing opportunities for transforming economic wealth into political power. Haddad, Bassam. 2012b. 'Syria, the Arab uprisings, and the political economy of authoritarian resistance'. *Interface Journal*, vol. 4 no. 1, May edition, p. 123.

64 Ibid., p. 121.



It is against this backdrop of corrupted economic development, the unequal distribution of resources and rising unemployment that the Syrian uprising erupted in March 2011. Unsurprisingly, the first stage of the uprising was in the southern city of Deraa, which has the country's second-highest population growth rate, is a highly urbanized area, but is severely deprived of public and private development projects. The enormous resentment and frustration that have accumulated over the years, not least over the privileges enjoyed by the state–business elite and the country's 'North–South divide',<sup>65</sup> generated numerous tensions. Particularly in the first months of the uprising, observers tended to explain the conflict as a rebellion by the poor Sunni masses against the wealthy and corrupt Alawite regime.

Although many poor Sunnis are undoubtedly fighting the regime for its greed and cronyism, a purely sectarian interpretation of the conflict is incomplete. A careful reading of the country's political economy under the Assads instead suggests a number of important insights into the conflict and its possible aftermath, with implications for understanding the limited sectarian nature of the crisis, the regime's total control over the state apparatus and the position of the Syrian business elites. All of this will be of huge relevance to any efforts to manage an orderly transition should the regime fall.

#### *Misreading sectarian causes*

First, the characterization of the Assad regime as 'Alawite' is only partly true. Alawites have certainly used the opportunities provided by the Assad regime to overcome their second-class status in society. Although, particularly under Bashar, Alawites comprise the hard core of the regime, avenues for social and economic advancement are available not only to the Alawite community. The regime realized very early on that it had to accommodate other social groups to ensure stability and its own survival. Other minority groups, and notably key members of the Sunni (business) community, were carefully co-opted into the regime. This 'social integration' was solidified by the ruling family's second generation – and illustrated by the marriage of Bashar to Asma al-Akhras, who hails from a wealthy Sunni family.

The allegiances between the Assad regime and parts of the Sunni (business) community, who are at the pinnacle of the socio-economic scale,<sup>66</sup> explain why powerful Sunnis have not turned their backs on the regime en masse during the current crisis. In fact, the Sunni business elite has shown ambivalence towards the uprising, and has mainly expressed only quiet and guarded support for the opposition.<sup>67</sup> Conversely, it is safe to assume that large parts of the Alawite community are not supportive of Assad's regime. The Alawite countryside remains 'strikingly underdeveloped, and ordinary Alawites rarely benefit from high-level corruption, least of all under Bashar'.<sup>68</sup> Many Alawites have joined the army for lack of an alternative, and are usually overworked and underpaid.<sup>69</sup> The reluctance of

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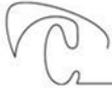
65 Baroutt, M. J. op. cit., p. 4.

66 Haddad, B. 2012b. op. cit., p. 123.

67 Ibid.

68 International Crisis Group. 2012a. op. cit., p. 27.

69 Ibid.



Alawites to (openly) join the opposition should not be explained using economic arguments alone, but rather by taking account of the widely felt fear among Alawites that their community as a whole will pay the price should the regime be defeated.

Thus, in the Syrian context, sectarianism is mixed in with other forms of inequality, and inequality exists within the various sectarian groups. Ironically, during the uprising, it is the regime that has attempted to ‘stir up sectarianism and sow communal divisions’, in order to present itself as the ‘only bulwark against civil war’.<sup>70</sup>

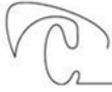
### *The difficulty of distinguishing state and regime*

Moreover, within each sectarian group, we can find individuals and families who have a clear stake in maintaining the status quo. This naturally served the ruling family interests for a long time, and is widely regarded as the key to its survival. Even in the event, which appears unlikely at present, that Bashar and his close family step down, the patronage system engineered by the Assad regime makes it impossible to cleanly separate Syria’s political, military and economic branches of power, or identify the motives of prominent individuals.

Given the state’s absolute lack of transparency, its intense internal paranoia and the collusion that characterizes its relation to other powerful segments of society, it is also extremely hard to predict how Syrian state politics would evolve if the ruling family were to depart, or negotiate some form of handover. So far, the multiple defections and casualties that have affected the heart of the regime during the conflict appear only to have prompted an intensification of Bashar’s military and security offensive. But in the event, say, of the retirement from political life of the Assad family after the style of Yemen’s presidential transition in 2011, there is some degree of uncertainty as to what sort of leadership could emerge, and what independence it could maintain from the regime’s support networks or its hawkish security elements. The Yemeni transition has hinged on the long-standing presence of rival families and clans in the political elite, and on continuity in the country’s systems of power and patronage despite the change in regime. But in Syria, by contrast, there are well-grounded doubts as to whether there is any capacity left within the regime’s carefully controlled political and economic system for a significant change in approach, including dialogue with the opposition. Likewise, it is hard to say what new personalities, fratricidal schisms and policies at home and abroad might possibly emerge.

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<sup>70</sup> Ibid.



### *The perspectives of the business community*

The effects of such a departure on the cohesiveness of the state–business elite are also hard to discern. In the months leading up to the uprising, it was rumoured that the Syrian government was intent on renewing its commitment to investments in the public sector, particularly in infrastructure, energy security and high-growth industries, in response to an overhaul of the economic decision-making process.<sup>71</sup> In any scenario, however, it would be mistaken to assume that business interests and their supporters would be willing to revert to state-centred economic management. It is also likely that ‘the same capital and business interests’ that have backed the Assad regime for so long will ‘creep back through various avenues’<sup>72</sup> in any post-Assad polity, possibly through new democratic institutions.

Bashar’s rule has produced ‘new social groups or ‘classes’ based on the generation that grew up during the period of liberalization since 1986. This ‘aggressive and self-aware social stratum may possibly play an important role in the future development of Syria’s political economy’.<sup>73</sup> The ‘plethora of young professionals and technocrats’<sup>74</sup> with whom the president surrounded himself belong to this social group, and enabled the leadership to take certain political risks in the field of economic liberalization throughout the 2000s.

The key to resolving Syria’s economic dilemmas in a post-Assad polity is the political will to address problems of institutional, legal and administrative reform. For decades, the relation between state and society, and consequently the course of economic development, has been ‘dominated by authoritarian structures and security apparatuses instead of the rule of law’.<sup>75</sup> The functioning of Syria’s economic institutions is illustrative of this state of affairs. Although ‘market’ institutions exist, and have expanded considerably under Assad’s rule, they are regarded with suspicion by the wider business community, are plagued by civil servants’ misunderstanding of regulations, and serve as mechanisms for collusion and corruption. The ‘state of mind’ that has dominated the state–business networks, and has trickled down in the state’s economic institutions, will probably survive a fall of the regime. The allocation of resources towards the most economically productive ventures is a significant political challenge, given the existence of collusive networks, and the dependence, until the conflict, of the Syrian population on the public sector.<sup>76</sup> Strikingly, by the summer of 2010, fewer than 10 per cent of the country’s 260 public enterprises were profitable.<sup>77</sup>

In the current political-economic landscape of Syria, ordinary investors cannot hope to compete with business moguls such as Rami Makhlouf, who reportedly has recently been

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71 Haddad, B. 2011. op. cit., p. 2.

72 Haddad, B. 2012b. op. cit., p. 123.

73 Haddad, B. 2011. op. cit., p. 9.

74 Ibid.

75 Ibid, p. 1.

76 Ibid, p. 5.

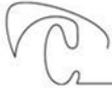
77 Economist Intelligence Unit. 2010. *Country Report: Syria*. April, p. 6.



buying stakes in a number of banks despite his avowed retirement from business life.<sup>78</sup> Institutions of governance fail to serve or represent the wider business community, whereas well-connected business people face no obstacles, either legal or financial, in implementing their initiatives.

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78 *Al-Akhbar* (English edition). 2012. 'Rami Makhlouf: Buying Syria one bank at a time'. 10 July 2012.



## The economy and governance in transition: crucial steps after Assad

As is the case of all economies,<sup>79</sup> that of Syria is firmly embedded in a mesh of institutional and informal routines and expectations developed over the course of four decades. At the moment of any clear rupture in this economic system through the crumbling, collapse or strategic withdrawal of the Assad regime, the country would be exposed to a radically new environment for business and employment. While there is little doubt that the freedoms of a post-Assad environment could pave the way for a raft of long-awaited political and institutional reforms – such as abolition of the regime’s intelligence services, reform of the justice and security sector, implementation of a transitional justice programme, or debate on a new democratic Constitution<sup>80</sup> – there is greater uncertainty over how the national economy might fare. Yet in the absence of improvements in people’s livelihoods and employment opportunities, grave concerns would certainly arise over the strength and sustainability of Syria’s new government.

It is clear from the preceding chapter that the imprint of the current regime is ubiquitous on all institutions of the state, including economic and financial offices, as well as on the attitudes of the country’s business leaders. At the same time, there is reason to believe that technical capacity in financial institutions has enjoyed a modest improvement during the time of Bashar al-Assad’s presidency, even in spite of the continued tendency to issue state-backed loans to preferred companies<sup>81</sup> and the marked switch in economic policy towards greater subsidies and state control since the start of the conflict.<sup>82</sup>

Furthermore, the end of the regime could be expected, in certain circumstances, to bring with it a substantial peace dividend. This could come not only in the form of international support for development programmes, but also through the reversal of the major obstacles to the Syrian economy that have so far been caused by the war: the return of entrepreneurs and qualified individuals (the UN estimates over 300,000 people have left Syria since the start of the war), the ending of sanctions (although not necessarily the freezing of assets of leading

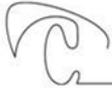
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79 One of the most significant scholarly works on the embeddedness of economic transactions in social life is that of sociologist Pierre Bourdieu. See for example Bourdieu, Pierre. 2005. *The Social Structures of the Economy*. Cambridge: Polity Press.

80 All of these areas of reform are discussed in much greater depth in The Day After Project. 2012. *op. cit.*

81 This is noted in an otherwise favourable report about Syria’s liberalization reforms issues by the International Monetary Fund in 2010. See IMF. 2010. *Syrian Arab republic: 2009 Article IV Consultation – Staff Report; and Public Information Notice*. Washington DC: IMF. The report states on p. 12 that ‘preferential lending schemes and directed credit to priority sectors should be phased out’.

82 Simpson, Mark. 2011. ‘Under Pressure, Syria Ends Economic Liberalization, Worsening Outlook’. *The Atlantic* 25 May 2011.



regime members), the resumption of normal cross-border transactions, and the repairs to infrastructure and buildings damaged by shelling and fighting.

Each of these economic factors – the weakening of key institutions of economic governance in the wake of the regime’s disappearance, the potential resilience of professional expertise, and the post-conflict boost from any resumption of normal trade and business life – can be expected in the immediate post-Assad transition. Planning for any economic impact measures in Syria naturally depends on the precise balance between them: stabilizing the currency and the macro-economy, paying public sector wages, ensuring property rights and opening wider possibilities for employment and investment are prerequisites for sustainable development assistance, and are all conditional on minimizing the costs of rupture with the old order while also maximizing the benefits of a new political settlement.

Over the medium to long term, however, stability and equitable economic growth will depend on the way Syria is run and the legacy of its war. This section will focus on three of the most important factors that will affect recovery: the general character of post-conflict transitions; the immediate state of the Syrian polity and economy at the end of war; and the unwinding of troublesome or hostile political and war economies.

### ***Transitional processes: the primacy of the political***

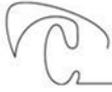
Each transition out of conflict or regime collapse is unique. But the similarities between the prospective end to a repressive, ethnically exclusive regime operating under international sanctions in Syria, and the demise of mono-ethnic, internationally sanctioned regimes after war in the Balkans and Iraq, offer useful points of comparison with the events that may lie ahead.

Experts on these and other transitions are unanimous in their emphasis on the primacy of resolving the concerns of peace and the future political settlement in the immediate aftermath of conflict, rather than concentrating on economic reform, especially if this would require a rationalization of state spending that might enflame potential spoilers even though aiming to generate greater efficiency and public well-being.<sup>83</sup> The importance of a predominantly political approach in the post-conflict short and medium term has now been enshrined in a number of models for economic recovery, such as those of USAID and the UN system.<sup>84</sup> These emphasize an initial period anchored in humanitarian assistance and large-scale job creation in conflict-affected groups, giving way over time to a larger place for

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83 See, for example, Del Castillo, Graciana. 2008. *Rebuilding War-Torn States: The Challenges of Post-Conflict Economic Reconstruction*. New York: Columbia University Press.

84 USAID Office of Economic Growth. 2009. *A Guide to Economic Growth in Post-Conflict Countries*. Washington DC: USAID; United Nations. 2009. *United Nations Policy for Post-Conflict Employment Creation, Income Generation and Reintegration*. Geneva: UN. This approach is also evident in the official literature on state-building, notably OECD-DAC. 2011, op. cit.



reconstructing institutions, infrastructure and public services. At the heart of these models is a trade-off over time between economic policies that are politically effective, and those that are efficient in terms of supporting sustainable growth. The sudden dismantling of the Iraqi army by the Coalition Provisional Authority in 2003 is one notorious example of how not to proceed.

This focus on the need to defuse the possible reactivation of wartime groups is one that is acutely relevant to Syria. Promises of political redress after the fall of the regime are not necessarily enough to provide a definitive halt to conflict; fighting groups, such as the FSA, jihadists and the counter-insurgent shabiha, have fostered (or are starting to foster) war economies based on looting and protection, which are likely to be perpetuated beyond any truce or peace deal, and to re-emerge in the form of organized violence and crime. As discussed in more detail below, these war economies can significantly undermine a new state's legitimacy by casting doubt on its ability to maintain peace and stability, or even to exert a monopoly of force. But they may also succeed in distorting the new state by combining new-found political and economic power with criminal alliances. Perhaps the best examples of these practices are to be found in post-conflict Bosnia and Kosovo. In post-Dayton Bosnia, for instance, economic and political life has been dominated by resilient alliances between organized crime, national politicians and members of the old communist nomenclature.<sup>85</sup> Importantly, these alliances had an economic and political interest in fomenting continuing ethnic tension.

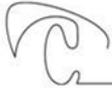
A slightly different case is to be found in Iraq. Here there has been no clear perpetuation of a wartime economy as such. However, the trauma of the post-invasion period, and the sectarian bloodshed that followed, has left behind a political system where the dominant motif is an ethno-sectarian carve-up of ministries and official appointments, currently dominated by Prime Minister Nouri Al-Malaki's State of Law list. Although oil revenues help to co-opt many of the sectarian factions, there are increasing signs of authoritarianism, little private sector growth and evidence of rising organized criminal activity.

The example of Iraq is also useful in providing a note of caution as regards programmes of economic reform. Although the push for greater efficiency is understandable in countries where public sectors are bloated, inefficient, and packed with friends of the regime (as in Syria), privatization programmes may not provide the most conflict-sensitive response. In Iraq, USAID's decision to invite international consulting firms to bid for contracts to carry out economic governance projects, including privatization of oil assets and other state-owned property, fed into the increasing violence that followed the US invasion.<sup>86</sup> Bosnia's quickfire privatization process, in contrast, ensured that the main purchasers of state assets were old ruling elites, who gained control of former public properties at bargain prices by playing the card of their ethnic membership. In place of this extremely corrupt and

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85 Donais, Timothy. 2005. *The Political Economy of Peacebuilding in Post-Dayton Bosnia*. Abingdon: Routledge.

86 Del Castillo, G., op. cit., p. 43.



unpopular process, Bosnian observers have questioned why more resources were not first put into strengthening the public enterprises through foreign investment.<sup>87</sup>

Examples such as these suggest that the political legacies of war, in the form of either territorially fragmented governance (e.g. warlords and enclaves), or of systems of power and spoils that rest on ethno-sectarian divides that opened up during conflict, are difficult obstacles to overcome – and this cannot be done by economic policy alone. Concessions to de facto power-holders must be artfully combined with efforts to support new, inclusive forms of governance. At the same time, foreign donors should be aware that inflated expectations of dramatic economic improvements can be counter-productive. When, for example, the Coalition Provisional Authority in Iraq failed to deliver on its promise of an immediate boost to living standards, local frustration grew. In the words of USIP's expert Robert Perito, reflecting on US experience in Iraq and Afghanistan: 'Optimism is not a strategy.'<sup>88</sup>

### ***Syrian politics and economics at war's end***

Barring a large-scale international intervention, it seems most likely that the extent of the damage to Syria's economic infrastructure and the scale of the exodus from the country will depend on the duration and intensity of battle, aided and abetted on all sides by foreign sponsors.

Regional repercussions have assumed a much more significant dimension since the conflict peak of August 2012, when battle deaths reached a monthly high. Should the escalating hostilities between Syria and Turkey prove to be a prelude to war, or should the Kurds strike out towards secessionism, repairing the relationship with Ankara would become an urgent post-conflict priority.<sup>89</sup> A spillover or escalation of conflict involving Lebanon, Iraq or Iran are all possibilities, and hugely threatening to the future normalization of Syria. It does not seem inconceivable that the Syrian conflict could eventually be addressed as part of a tit-for-tat arrangement between regional and global powers with major stakes in the Middle East region, at the cost of efforts to establish a state that might address as a priority the democratic aspirations of the Syrian people.

Furthermore, certain extreme scenarios based on the domestic strategies of the warring parties would bring about a profound dislocation in the national economy and a dismantling of the central state, requiring a long period of rebuilding and recovery commencing with humanitarian aid. A wartime process of ethnic cleansing and territorial fragmentation,

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87 Ibid, p. 126.

88 United States Institute of Peace. 2005. 'Post-Conflict Stabilization and Reconstruction: What Have We Learned from Iraq and Afghanistan'. Peace brief. Washington DC: USIP.

89 The Economist. 2012. 'Bad blood bubbles'. 6 October 2012. On the complex politics of Kurdish involvement in the Syrian conflict and links to Turkey, see Urrutia, Pamela and Villellas, Ana. 2012. *Reopening the Kurdish question: states, communities and proxies in a time of turmoil*. Oslo: Norwegian Peacebuilding Resource Centre (NOREF).



putatively involving the formation by regime diehards of an Alawite enclave of Latakia, would constitute one of the gravest threats to a return to economic normality, complicating any future trans-border trade with Lebanon and turning the bulk of Syria into a land-locked country. The traumas created by this process would inevitably make the brokering of an inclusive political settlement particularly difficult.

Evidence from recent reports does indeed point to an apparently irreversible slide towards sectarian hatred,<sup>90</sup> as well as the official embrace of increasingly extremist rhetoric.<sup>91</sup> However, this should be leavened by the presence of deep social divisions within each ethnic group, as well as a strong tradition of inter-ethnic cooperation<sup>92</sup> (including intermarriage, most notably in the case of the presidential couple). Indeed, a likely starting point for any international involvement in a devastated post-conflict Syria would be to build on the largely self-sufficient, self-governed communities that have arisen following the emergence of the FSA and the retreat of the state from areas that it can no longer control. Should the central state be largely disabled during the war, then the delivery of basic services and foreign assistance will probably be routed for a critical period through the Local Coordination Committees (LCCs), some of which have already formed what one recent report from Idlib, north Syria, termed a 'grassroots social services system' in liberated areas.<sup>93</sup>

Currently the only form of effective governance through civic authority in areas where the state is absent, the LCCs may enable rapid delivery of aid to affected communities, and will possibly prove to be instrumental in engaging citizens in a future renegotiation of state structures or in the administration of justice.<sup>94</sup> They have already shown the ability to work with armed groups, to the extent that around 40 units of the FSA have signed codes of conduct with their local committees. At the same time, these committees would potentially also make an eventual process of central state formation slow and painful: their de facto grassroots status is likely to generate tensions with the process of state and constitutional reform, and their stance towards returning diaspora experts, who will be likely candidates for new government positions in Damascus, may be stand-offish. Finally, working through non-transparent local networks would most likely imply tolerating the presence of criminal,

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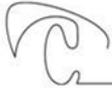
90 International Crisis Group. 2012a, op. cit., pp. 27-31.

91 Leaflets dropped from military helicopters into areas of Damascus in late August have promised 'inevitable death' for rebels, while some citizens have also adopted the discourse of ethnic cleansing (see in particular International Crisis Group. 2012a. op. cit., p. 25). This contrasts markedly with the defence mounted by President Assad in his interview in December 2011 with ABC television: 'We don't kill our people, nobody kill... It's impossible for anyone, in this state, to give order to kill people.' ABC News transcript, 7 December 2011.

92 'In Syria we don't have separate communities. There are marriages, relationships between Sunnis and Alawis. We've lived together for 1,000 years. We're not dependent on religion.' Opposition Alawite activist, interviewed in Harding, Luke. 2012. 'How a freedom-fighting pharmacist showed me the complex truth about Syria's sectarian conflict'. *Guardian* 13 August 2012.

93 *Time*. 2012. 'A Dispatch from 'Free' Syria: How to Run a Liberated Town'. 24 July 2012.

94 According to *The Day After*, the LCCs will provide the backbone for a post-conflict structure of Local Rule of Law Committees, which will oversee the justice sector, negotiate with different political and security groups, ensure election security, and receive complaints of abusive actions by state officials. It is also envisaged that armed revolutionary groups will participate in these committees. The Day After Project. 2012, op. cit., pp. 30-31.



black market or belligerent elements with a strong local support base. These circumstances would be similar to those encountered in Kosovo following the expulsion of Serbia in 1999.

### ***Dismantling hostile political and war economies***

As stated earlier in this chapter, the broad aim for economic policy-making in the immediate aftermath of war appears to be two-fold: preserving the institutions and instruments that underpin stability – the currency, banking system, payment of public sector wages – while also achieving sufficient changes in the political climate to bring about a restoration of business life, aided by a boost in foreign aid and investment. The expectation in various policy models, such as that of the UN, is of a short- to medium-term fillip to growth and employment, paving the way towards the crafting of a more inclusive political settlement that would eventually rewrite the patterns of economic distribution and rent-seeking that characterized the old order.

The problem with this approach is apparent from a number of earlier transitions, particularly those in the Balkans and Iraq. Simply put, the pre-existing political economy and the war economies that are to be found in these conflict environments require immediate attention if they are not seriously to distort the emergent landscape for business and politics. A number of different rungs of these economies can be identified, from the most urgent to those that will concern domestic and foreign policy-makers over the course of years. In many ways, addressing problems connected with the following five core areas can be considered as a crucial precondition for longer-term stability and growth.

#### ***1. Armed rebel groups and the informal security apparatus***

As the war proceeds, Syria's theatre of war is becoming increasingly crowded with different armed groups, with fast-changing alliances between them.<sup>95</sup> Dismantling the warring parties, which have grown attached to violent and criminal means of survival, stands as one of the main concerns for transition planning. Evidence from Iraq, Afghanistan and Central America amply confirms the devastating effect on state legitimacy and normal economic life of a wave of insecurity and crime following the end of major armed conflict. The main groups and organizations that would have to be demobilized in some way or other are as follows.

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95 International Crisis Group. 2012b. *Tentative Jihad: Syria's fundamentalist opposition*. Middle East Report No. 131.



i. *The Free Syrian Army*

The FSA should be regarded as an umbrella organization rather than a military chain of command. Since September 2012, it has been nominally led from the Idlib province of Syria by the Higher Revolutionary Military Council (HRMC), which includes commander-in-chief Riad al-Asaad and his deputy Colonel Malik Kurdi, as well as chief of staff Colonel Ahmed Hijazi. Over 30 independent FSA branches were identified as of March 2012,<sup>96</sup> of which three effective units maintain direct ties to the HRMC.<sup>97</sup> Other FSA branches share the brand name, but there is hardly any significant logistical support, unified chain of command, or joint political affiliation. Military organization is thus fluid and localized, and new branches are established as the conflict evolves, ranging from self-defence forces to professional militia practising offensive guerrilla tactics. Many of the FSA's small arms come from within Syria, either from army defectors, or after being purchased from corrupt members of the security services or seized in battle.<sup>98</sup> In addition, arms trafficking from Iraq, Turkey, Lebanon and Libya is flourishing.<sup>99</sup>

The decentralized character of the FSA is partly based on strategic considerations, in order to avoid targeted military attack by the regime.<sup>100</sup> However, it is also based on geographical opportunism: where the repression is most severe, social movements have militarized, initially as self-defence forces that have later grown into an armed FSA branch.<sup>101</sup> Finally, a further important reason for the absence of a unified FSA command lies in the uncoordinated funding sources, largely from a fragmented Syrian diaspora,<sup>102</sup> and a lack of sufficient communication between branches.

There are no reliable figures about the size of the FSA, but current estimates run to around 50,000:<sup>103</sup> they include farmers, students, shop-keepers and real estate agents, but also officers who have deserted the Syrian Army and former gang members.<sup>104</sup> Their economic and educational backgrounds are extremely diverse, as are their incentives and motivations for joining the FSA. Key FSA figures maintain that its campaign is purely secular, and in favour of a democratic and inclusive Syria.<sup>105</sup> However, the image of the FSA as the result of a militarized popular uprising is increasingly compromised by the presence of Salafist and Ikhwaan (i.e. Muslim Brotherhood) ideology among its factions. It is argued that the expansion of the conflict has radicalized the armed campaign – not least because a pronounced Islamic agenda helps boost external funding from religious supporters in Saudi Arabia and the Gulf States, and in the case of the Ikhwaan, from wealthy Muslim Brothers in

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96 Holliday, Joseph. 2012. 'Syria's Armed Opposition'. Institute for the Study of War, Middle East Security Report 3, March.

97 Notably, Khalid bin Walid Brigade, Harmoush Brigade and the Omari Battalion. Ibid., pp. 35-36.

98 Holliday, J. op. cit., p. 30.

99 Al Jazeera. 2012. 'The Foot Soldiers in Syria's War'. 30 July 2012.

100 Holliday, J. op. cit., p 10.

101 International Crisis Group. 2012a. op. cit., p. 10.

102 *Guardian*. 'Syria Crisis: West Loses Faith in SNC to Unite Opposition Groups'. 4 August 2012.

103 *New York Times*. 2012. 'As Syrian War Drags on, Jihadists Take Bigger Role'. 29 July 2012.

104 CNN. 'Faces of the Free Syrian Army'. 27 July 2012.

105 International Crisis Group. 2012b. op.cit., p. 6.



the diaspora.<sup>106</sup> A noteworthy case in point is the influential Al-Tawhid brigade in Aleppo, which claims to consist of over 8,000 fighters and to be the best-organized group currently involved in the armed opposition.<sup>107</sup>

## ii *Islamist groups*

Alongside the secular civilian uprising, the activities of Syrian Salafi militia and external jihadists have expanded in recent months.<sup>108</sup> Salafist groups distinguish themselves from FSA factions that are affiliated to Salafi thought by their insurgency tactics, sectarian rhetoric and political goals.<sup>109</sup> Although jihadi Salafism in itself provides a coherent and unifying ideology that legitimizes armed resistance, it should be noted that Salafi militia are far from united themselves. Roughly speaking, they can be divided between those who aim to replace Assad's regime with an Islamist government, and global jihadists who denounce the entire secular framework of Syrian national life.<sup>110</sup>

Salafi groups are better organised, trained and equipped than their secular counterparts, largely because of the inclusion of well-trained militants and funding from patrons in the Gulf states.<sup>111</sup> Recent reports, however, indicate that the divisions between the countries supporting rebels (primarily Saudi Arabia, Qatar and Turkey) and fear of a jihadist 'blowback' may have reduced the flow of weapons and finance. Overall, these groups are unwilling to align themselves to any coordination mechanism of Syria's political opposition, although they may fight alongside the FSA for opportunistic reasons.

Again, reliable figures about their numbers are absent. However, it is claimed that a large portion of fighters with a Salafist agenda are in fact returning Syrian insurgents who have been trained on the job in Iraq.<sup>112</sup> Others have identified Iraqis, Libyans, Algerians, Chechens, and even a Spaniard among the foreign jihadi fighters, but their numbers are estimated at around 1,000.<sup>113</sup>

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106 *New York Times*. 29 July 2012. op. cit.

107 Al Jazeera. 20 August 2012. op. cit.

108 On the subject of the increasing jihadist presence see The Quilliam Foundation. 2012. 'The Jihadist Network in the Syrian Revolution. A Strategic Briefing'; Abdul-Ahad, Ghaith. 2012. 'Syria: the foreign fighters joining the war against Bashar al-Assad'. *Guardian* 23 September 2012.

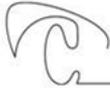
109 International Crisis Group. 2012b. op. cit., p. 21.

110 *Ibid.*, p. 5.

111 International Crisis Group. 2012b. op. cit., p. 5.

112 Holliday, J. op. cit., p. 32.

113 *New York Times*. 29 July 2012. op. cit. A rival estimate puts their number at a maximum of 1,500 (see The Quilliam Foundation. 2012. op. cit.)



iii *Regime loyalists: Shabiha, informants and 'community defence'*

As in other sectors in Syrian society, the security apparatus has been designed to guarantee regime survival before all other considerations.<sup>114</sup> In addition to the formal Syrian army and security services (consisting of regime loyalists, military professionals, but also of those serving conscription), the paramilitary subcontractors, shabiha, and a large group of paid informers, estimated to number between several hundred thousand and 1.6 million,<sup>115</sup> constitute the cornerstone of Syria's highly militarized daily life. While the formal security apparatus will have to become subject to a thorough security sector reform programme, which will raise many dilemmas of its own (and is outside the scope of this paper),<sup>116</sup> the latter two informal segments will have to be addressed as a matter of urgency immediately after regime collapse.

Originally a sectarian mafia, the shabiha have developed into a loosely organized paramilitary group, employed to shield the regime from the threat of the armed opposition with a 'unique blend of sectarianism and violence'.<sup>117</sup> Consisting predominantly of Alawite gangs, the shabiha have proved themselves extremely loyal to 'the father leader', Bashar al-Assad.<sup>118</sup>

When the uprising began, the shabiha grew exponentially. Some were intimidated by local security forces to join, others gave in to peer pressure, while yet others were actively recruited in sports clubs.<sup>119</sup> Reportedly encouraged to take steroids, they are trained into brutal violence, including random murders and rape, by their bosses. Many members come from marginalized segments of the society, and join the shabiha as a means to social advancement.<sup>120</sup> Intimidation and disproportionate violence is embedded in the shabiha's core identity. It is a way of life and of accumulating wealth, and seems to have only a circumscribed political goal.<sup>121</sup> For them the current crisis represents a zero-sum game: they are convinced that it is 'to kill or be killed.'<sup>122</sup>

Importantly, their personal loyalty to and financial ties with influential families in Syria are strong. The President's cousin Numir al-Assad is said to be one of the key figures in the shabiha.<sup>123</sup> They reportedly receive directions through a complex network of 'bosses', placed within the official security services and the higher business elites, and members earn between 35 and 100 US dollars a day for their services.<sup>124</sup> As the conflict evolves, and state

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114 Al-Haj Salih. op. cit., p. 3.

115 The lower figure is proffered in George, A.. op. cit., p. 2. The higher figure is provided by a conflict analysis carried out by the UK Stabilisation Unit.

116 On this issue, see *The Day After Project*. 2012. op. cit., Chapter 3.

117 Al-Haj Salih, op. cit. p., 6.

118 Ibid.

119 *Daily Telegraph*. 2012. 'The Shabiha: Inside Assad's Death Squads'. 2 June 2012. 'Confessions of an Assad 'Shabiha' Loyalist: How I Raped and Killed for 300 a month'. 14 July 2012.

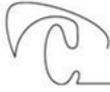
120 International Crisis Group. 2012a. op. cit., p. 6.

121 Ibid.

122 *Daily Telegraph* 2 June 2012. op. cit.

123 Al-Haj Salih. op. cit., p. 4.

124 Ibid., p. 6.



coffers empty, it is likely to become more difficult to distinguish violence committed by the shabiha from the official state offensive.

Lastly, the Syrian secret service has built an extensive network of civilian informants seemingly based on the model of the East German Stasi.<sup>125</sup> For decades, the operations of the *mukhabarat*, Syria's secret service, has created a social dynamic of fear and mistrust. In the current conflict, alleged informants have already been targeted by the armed opposition.<sup>126</sup> Unlike captured officers of the Syrian Army, who are generally treated as prisoners of war, the alleged informants are subject to extrajudicial executions. The system of espionage is deeply entrenched in Syria's social and economic life, and may well stand behind the recent emergence of pro-regime community defence groups in Damascus.<sup>127</sup>

#### *General considerations on Disarmament, Demobilization and Reintegration (DDR)*

Two sets of problems are likely to arise in any bid to demobilize informal armed groupings in the wake of the fall of Assad's regime. As regards the FSA and other rebel militia, the lack of unified chain of command and a coherent political agenda outside the Islamist forces make the rebels a difficult partner in any negotiations over a potential ceasefire or a general DDR process. The likelihood of a successful outcome to FSA fighters' voluntary reintegration into civilian life would appear to be highly dependent on a successful normalization of economic life, such as cash and credit flow, infrastructural work and security in the rural areas, as well as strong partnerships with the LCCs. If opportunities for reintegration are meagre and insecurity remains high, segments of the FSA may well be susceptible to continued involvement in illegal activities.

An additional risk is of further FSA fragmentation after the military goal of regime collapse has been reached, with branches likely to be mobilized for sectarian, Islamist or opportunistic political and economic goals, potentially resulting in internecine fighting. In particular, the presence of victorious Salafist groups in a post-Assad Syria is worrying, as it may fuel sectarian tensions within Syria's society, threatening the position of the Christian and other minorities in society, sharpening the Sunni–Shia divide, and raising the prospect of intervention by concerned neighbours. Their presence will also decrease the likelihood that other armed groups and remainders of the regime's security apparatus will hand in their weapons and reintegrate into civilian life.

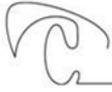
As for these regime loyalists, it is hard to envisage at present what precise form a DDR process might possibly take. Past experience in post-conflict environments suggests that rapid pacification of the country will require a transitional period, in which some form of

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125 The security services in Syria are said to have been organized and trained by the Stasi. See Iskandar, Marwan 2009. *Rafiq Hariri and the fate of Lebanon*. London: Saqui Books, p. 201.

126 International Crisis Group. 2012a. *op. cit.*, p. 12.

127 Peel, Michael. 2012. 'Damascus vigilantes vow to defend turf'. *Financial Times* 22 October 2012.



payment to informers or militias is continued until their enrolment in reintegration schemes, or the provision of alternative income-generating opportunities. But the willingness of battle-hardened militia to take part in these initiatives, the intense and justified resentment that would be aroused in the rest of society at any benevolent treatment of these networks, and the key role that their members are likely to continue playing in criminal activities or in links to pro-Assad business figures, indicate that the creation of a DDR process will require much forethought and considerable effort.

## 2. Black markets and criminal networks

The erosion of the Syrian state and the emergence of 'liberated' areas under FSA and LCC control have brought a rapid spread of informal as well as illicit economic activity. Recent estimates suggest that 80 per cent of the workforce is now engaged in informal activity, up from 30 per cent a year ago.<sup>128</sup> The fragility of the banking system, and the impossibility of transferring money via banks to the traditional trading and business hub of Lebanon due to European, Arab and North American sanctions,<sup>129</sup> mean the Syrian economy has become almost entirely cash-based.<sup>130</sup> As a result, Syria is now the site of increasing war profiteering, by apolitical opportunistic entrepreneurs as well as armed forces and groups, notably through firesales of real estate by those seeking to leave the country with some capital, as well as via trading in heating oil and diesel.<sup>131</sup> Customs posts and official checkpoints appear to have become sites of frequent corruption and bribery.<sup>132</sup> The need for cash is also acutely felt by combatants, giving rise to a reported crime wave, including kidnapping and looting by the shabiha militia and rebel forces (particularly in Aleppo),<sup>133</sup> as well as pillaging by government troops, who may even sell on stolen weapons or levy a charge for releasing prisoners.<sup>134</sup>

The implication of these emerging informal markets and increased illicit activity on any future transition is twofold. First, it will make rigorous assessment of the post-conflict socio-economic situation, and the main business actors within in, far harder. And second, urgent measures will have to be taken straight after the conflict to buttress the formal economic sector by strengthening border controls, maintaining some form of enforcement presence through the Syrian National Police, and re-establishing a normal banking culture, including the possibility of making foreign transfers.

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128 Estimate from UK Stabilisation Unit.

129 Bloomberg Businessweek. 2012. 'Syria's Economy Starts to Crumble'. 10 May 2012.

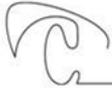
130 One curious consequence was the request from Air France that the passengers on a flight diverted to Damascus in mid-August provide the cash needed for the plane to refuel. See *New York Times*. 2012. 'Rerouted to Syria, Travelers Are Asked to Pass the Hat'. 17 August 2012.

131 Bitar, Nadia. 2012. 'Syrian War Profiteers Cash in on Insurgency'. Spiegel Online, 6 June 2012.

132 *Los Angeles Times*. 2012. 'On the road to Damascus: Thirsty guards, bribes and menace'. 23 August 2012. *The Times of Israel*. 2012. 'Pay a hefty bribe or risk being felled by Assad's snipers'. 17 July 2012.

133 *New York Times*. 2012. 'Crime Wave Engulfs Syria as Its Cities Reel from War'. 9 August 2012.

134 International Crisis Group. 2012a, op. cit., p. 32.



### 3. Overcoming political opposition fragmentation

Evidence of major cleavages in the opposition, notably between the diaspora-led Syrian National Council (SNC) and a host of other umbrella political organizations<sup>135</sup> – each with very different constituencies and rallying calls – as well as between the diaspora and LCCs, suggests that a crucial part of international activity ahead of the transition must consist of encouraging a basic consensus on future political and economic reforms. This assistance might come in the form of mediation, facilitation of dialogue, support for nascent political parties and for a process of constitutional reform. A major conference in Doha in November attempted to establish a new united opposition, although with limited success. Future efforts will probably also require a degree of compromise and moderation among the various foreign sponsors of different groups. To complicate matters, it is unclear to what extent the FSA factions will set out a political agenda once the military goal of overthrowing Assad's regime is achieved.

At the same time as seeking to prevent a drift towards factionalism and sectarian political mobilization, as witnessed in post-conflict Bosnia, Kosovo and Iraq, this process of consolidation should seek ways to establish a number of guarantees for the Alawite minority, the community that most clearly fears the fall of the Assad regime. These guarantees would appear essential to preventing future sectarian conflict, ensuring the full territorial integrity of Syria, and, perhaps of greatest significance in the immediate aftermath of conflict, preventing an ongoing armed struggle by disaffected elements of the shabiha.

### 4. Breaking down the regime's business conglomerates

A particularly thorny challenge during a transition will involve dismantling the large business conglomerates built up by regime insiders over the past decade. The two best-known examples, Cham Holding and Souria Holding, both rose to prominence in the wake of the introduction of new company laws in 2005, and appear to have relied on collective investments by elite Syrian business people along with excellent access to the regime. Cham Holding, for instance, was launched with the collaboration of 73 Syrian investors, and with a start-up capital of 360 million US dollars.<sup>136</sup> Its principal areas of activity are property, finance, energy, health and transport. Rami Makhoul, Bashar's cousin, is understood to be the largest shareholder (see also Appendix 2), although he claimed last year to have withdrawn from business life, while the entire board of Cham was replaced in August 2011 after sanctions were imposed on Makhoul by the European Union (EU) and the United States. The company itself was sanctioned a month later for financing the Assad regime. Souria Holding (also known as Syria Holding) is more narrowly focused on real estate and

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135 These include the Syrian American Council, the Syrian Emergency Task Force, the Damascus Declaration, Syrian Alliance for Democracy, United for a Free Syria, Syrian Expatriate Organization, Syrian Support Group and other support committees in numerous cities.

136 Syria Today. 2011. 'Sanctioned Cham Holdings appoints new board'. August/September.



infrastructure, as well as the local franchise for the supermarket chain Spinneys.<sup>137</sup> It was also placed on the EU-US sanctions list last year.

The economic importance of these and other companies makes it highly unlikely they will disappear in the wake of any transition from the Assad regime. Although the companies, as well as their principal shareholders, are among the 155 individuals and 53 organizations currently on the EU sanctions list for Syria, there are indications that various prominent pro-regime business leaders are still profiting from wartime deals, and may well deploy front-men and shell companies to disguise their investments in the future. They may also retain strong links to the shabiha militia, and use these forces as peace spoilers and as links to criminal activity.

While wishing to encourage job creation and investment through renewed private sector activity, a new government will have to tread a fine line by monitoring with great care any break-up of these holding companies and changes in ownership of firms once favoured by the Assad regime, as well as scrutinizing the true identity of investors who purchase the companies. Great attention will also have to be paid to the origins of funds used in any future privatization processes, or in the funding for new political parties.

## **5. Rebuilding and transforming the state**

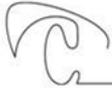
A rapid return to economic normality, aided by an end to sanctions and influx of foreign aid and investment, would make a significant contribution to attempts to ease the tensions that follow the immediate aftermath of conflict. This would be felt above all in the dismantling of criminal networks, attempts to reintegrate combatants, and possibilities for new political coalitions.

However, the precise conditions in which the central state will be bequeathed to any post-Assad government depend very much on the severity and duration of the conflict. The threat of state bankruptcy or of a private plundering of central bank reserves, the failure to pay swathes of public employees and an acceleration of the current exodus as war intensifies in Damascus all constitute serious and imminent challenges to the basic integrity of the state apparatus. An imperative in the wake of the regime's downfall would therefore be to restore or bolster basic capacity in economic governance – such as printing money, inflation control, coordination of the banking system, and payment of public sector employees.

Once this emergency period is over, a rather distinct set of challenges is likely to arise. Many of these are rooted in the deep political economy of the country, which were analysed in depth in the previous chapter. In short, the regime created by the Assads has engaged in systematic co-option of part of the private sector and the broader population. For the former it has operated as a mechanism for acquiring joint economic power, while for the latter it has offered a modicum of social welfare and job opportunities. The general result has been extreme inefficiency, and a drag on economic dynamism.

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137 Syria Today. 2008. 'Souria Holding and Spinneys sweep Syria'. January.



The immediate need for reconstruction or consolidation, and the longer-term need to restructure the state, clearly generate competing sets of demands. Even if the two are carefully phased, so that support for the public sector gradually gives way to greater emphasis on efficiency as normality is restored, there remains the broader issue of how systems of patronage, clientilism, co-optation and ethnic privilege will feature in any new state. Although it may be laudable to insist on a reformed and purely merit-based state service in Syria, the sheer longevity of patronage in the public sector makes it difficult to conceive how a new political system can be established and legitimated in the public mind without some ability to distribute the 'spoils' of office.

Thus, instead of insisting on strict criteria of performance and probity, it would probably be wiser for foreign donors, multilateral institutions and local civil society bodies to make sure that the new networks of patron–client relations do not entrench or exacerbate ethno-sectarian divides. They may also find it worthwhile to support the work of LCCs, whose focus on meeting public need at the grassroots level makes them one of the few viable channels for a new style of governance in Syria. This support, however, will require an acceptance by foreign donors and leaders in Damascus that central control over local communities' affairs and non-state militia may be limited, and that public authority may be fragmented.

One of the greatest risks for a post-Assad state, as shown previously in the cases of Bosnia and Iraq, would be to establish a new system of structural privilege on the basis of ethnic identity. It is to be doubted that Syria, with its 40 ethnicities, many of them linked to broader ethnic and sectarian faultlines across the region, could prevent a recurrence of conflict in such circumstances.



## Conclusions: a phased approach

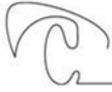
There is no doubt that the way the conflict ends will have enormous influence on the possibilities for economic recovery and the conditions in which a new government inherits the central state. Territorial fragmentation, state bankruptcy, regional spillover and the spread of criminal and Islamist networks are among the existing or possible direct effects of conflict, each of them threatening to have huge and harmful effects on Syria's future economic and political life. However, in addressing the question of what conditions are required for stability and recovery in the event of the downfall of the Assad regime in Syria, this paper has dwelt extensively on the extreme politicization of economic life in the country.

In particular, it has identified five sorts of political and war economy that a post-Assad government, with or without international support, will face in the aftermath of conflict, or in a period marked by a reversion to low-intensity warfare. The tasks to face include:

- Demobilizing armed rebel groups and the informal security apparatus
- Dismantling black markets and criminal networks
- Overcoming opposition fragmentation (and preventing an ethno-sectarian drift)
- Breaking down the regime's business conglomerates
- Rebuilding and transforming the state.

The challenges in these areas are substantial thanks to the nature of Syria's political economy, and the way it has shaped and been shaped by the conflict since 2011. Long-standing cultivation of extremely powerful business networks close to the regime; the development of a bloated public sector as a means for co-option of various groups; the role played by an informal hierarchy of Alawite leaders linking together business, politics and security; the perceived disenfranchisement and suspicion of economic liberalization felt in largely Sunni rural areas; and the growing role of foreign sponsors who 'cherry-pick' their favoured armed groups and political leaders – together these constitute a minefield of interest groups and potential spoilers that any new government and potential foreign donors will have to manage with extreme care.

Whereas a first post-conflict phase may have to be devoted to shoring up the withered institutions of the state and guaranteeing a basic level of security, the medium- to long-term prospect for Syria's political and economic stability depends on reforming these institutions in a way that underpins stability and improved governance. To do so will require a difficult balance between improving efficiency, acknowledging the reality and expectations of patron-client ties, and preventing wherever possible the re-emergence of new forms of



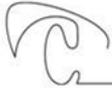
ethnic privilege and supremacy. As the World Bank emphasizes in its World Development Report 2011 on conflict, phases of institutional reform are best interspersed with regular doses of confidence-building measures and tangible material results for the people – above all in security, justice and jobs.<sup>138</sup>

To illustrate what such a prudent, phased approach might involve, the goals for a post-Assad government, presumably acting with international support, might look as set out below. Obviously, the precise duration of each period hinges on the level of devastation left by the civil war.

- **Immediate targets** (0–3 months): Lift most embargos, normalize flow of cash and credit, revive border controls, Finance Ministry and Central Bank. Identify members of regime's security network and start targeted demobilization and reintegration. Establish bases for DDR programme for FSA and broker ceasefire arrangements with jihadists, possibly through direct talks with foreign sponsors. Begin urgent infrastructure repairs. (This period will probably also witness landmark political changes and the threat of reprisals, revenge killings and sectarian violence, and will probably require a foreign police and peacekeeping presence.)
- **Short-term** (0–6 months): Encourage turnover of senior figures across Syria's professional, trade and union groups, without disbanding these organizations. Encourage incremental changes in state bureaucracy and business, above all through the departure of regime diehards. Initiate security sector reform programme in military and police. Ensure fair representation of all ethnic and sectarian groups. Encourage and support new platforms for political and constitutional negotiation. Also, envisage job-creating expansion in the public sector (e.g. emergency and social services to war-affected regions).
- **Medium-term** (6 months–3 years): Deepen democratic control and oversight of state functions. Lay down economic growth agenda based on Syrian strengths, with special attention to rural areas. Wind down reintegration programmes for security networks and armed militia, and curb emergency assistance except to poorest and most conflict-affected areas. New forms of patron–client relations will have to be tolerated in political institutions that emerge from first democratic elections.

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138 World Bank. 2011, op. cit.

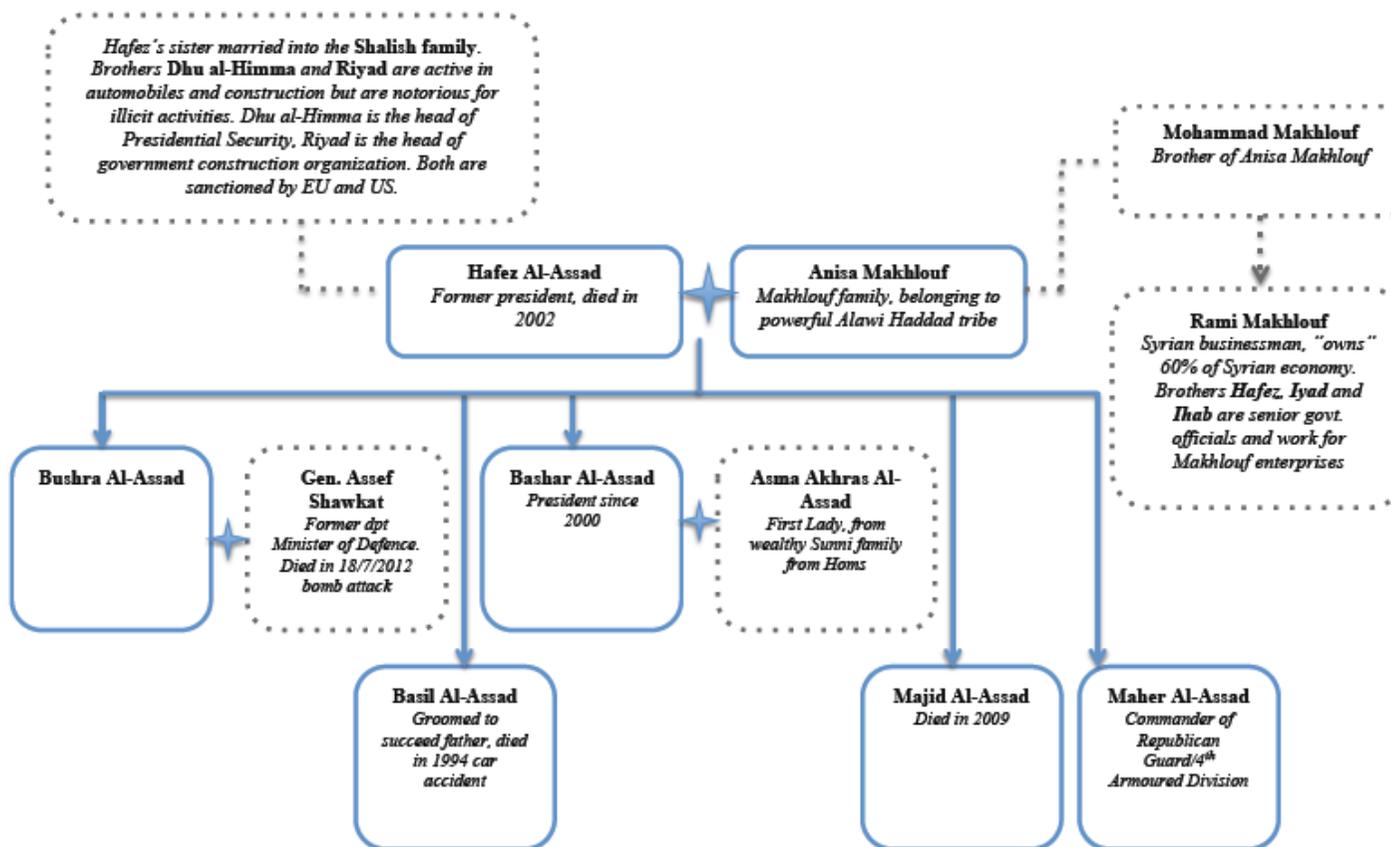


- **Long-term** (3 years onward): After public deliberation, initiate plan to reshape and streamline public sector and liberalize economic life, including privatizations, but with guarantees of fair representation and equity through a mixed national–international panel of experts. Initiate special investigations into the origins of the capital of those seeking to purchase state companies or spin-offs from Assad-regime conglomerates. Give special weighting to bids that include members and firms from multiple ethnic groups. Seek democratic ratification for any reform plan.

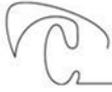




**Appendix 1: The Assad family**





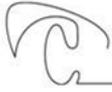


## Appendix 2: Key individuals in Syria's political economy

This section presents an overview of key individuals and members of Syria's business establishment and the Assad regime's inner circle (except for Bashar al-Assad's direct kin). It must be noted that this list is by no means exhaustive, but rather is intended to provide factual information about certain names one frequently comes across while studying Syria's political economy under Hafez and Bashar al-Assad (notably the Tlass, Makhoul and Shalish families). Other actors included are those who played a significant role in Syria's political economy in previous decades, or (business) individuals who have made headlines during the Syrian uprising. It is important to stress that this overview suffers from the severe lack of transparency of the Syrian regime and the dynamics within the top echelons of the business community. Much of the available information rests on speculation and assumptions. The glossary below includes only well-founded information, but inevitably information gaps remain.

### *Mustapha Tlass*

Mustapha Abdul Qader Tlass (b. 1932) is a senior member of the Sunni Tlass family from the northern village of Rastan (near Homs). Having been a Ba'th Party member since the age of 15, Tlass joined the Homs Military Academy in 1952. There he met Hafez al-Assad, and the two developed a close friendship. Tlass stood by Hafez during the 1970 coup, and in 1972 he was promoted to the post of Minister of Defence, a position he kept until 2004. He survived the reshuffling of the Syrian cabinet in 2003, but retired at the age of 72 in 2004. It is understood that Tlass helped Bashar al-Assad consolidate his power after the death of Hafez in 2000. The Tlass family is regarded as the most prominent Sunni ally of the ruling family. Mustapha Tlass married Lamia al-Jabari, who belongs to the traditional elite of Aleppo, in 1958. At the time, marrying into the traditional (Sunni) establishment was a remarkable move for a Ba'th Party member. Tlass and his wife have four children: Nahid, Firas (see below), Man'af (see below) and Sarya. Mustapha Tlass also runs a publishing house, is an author, and is notorious for his controversial anti-Semitic statements. In 2011, Tlass left Syria for France for what he described as 'medical treatment'. According to opposition sources, the unannounced brutal crackdown by the regime on the rebellion in Tlass' birthplace Rastan was the prime motivation for his departure. It is unknown whether he is still in Paris.

*Sources:*

Middle East Intelligence Bulletin, 'Dossier: Lt.-Gen. Mustafa Tlass', vol. 2 no. 6, 1 July 2000 (author anonymous)

BBC News, 'Profile: Mustafa Tlass', 22 September 2003

The Estimate, 'The man who enraged the Palestinians: Syrian Defense Minister Mustafa Tlass', vol. 11 no. 17, 13 August 1999

Reuters, 'Syrian general breaks from Assad's inner circle', 5 July 2012

*Man'af Tlass*

Man'af Mustapha Tlass was born in 1964 as the third son of former Defence Minister Mustapha Tlass (see above). Coming from a wealthy Sunni family with firm ties to the Assad regime, Man'af was a close friend of Basil al-Assad (Bashar's oldest brother who died in a car accident in 1994). Just like their fathers, Man'af and Bashar developed a tight friendship when they attended the Military Academy together. Man'af became one of Bashar's right-hand men and introduced the president to the Sunni merchant class. Man'af is regarded as entertaining and charismatic, and he and his wife Tala Kheir are known as leading figures on the Damascus social scene. In 2000, Man'af was promoted as member of the Central Committee of the Ba'th Party and he also served as commander of the Republican Guard, one of the regime's elite military units. Under Bashar's rule, Man'af was an advocate of reforms and (gradual) liberalization, and in the early months of the uprising, he held talks and negotiations with armed opposition groups. The president subsequently decided to put him under a form of house arrest in May 2011. Frustrated by the regime's use of violence against the opposition, Man'af defected to Turkey in early July 2012. His cousin Abdul Razzak Tlass, who deserted earlier from the Syrian army and joined the FSA's Al Farouq Battalion, allegedly helped Man'af to leave. On 24 July 2012, Man'af confirmed his defection in a televised statement, in which he also announced his support for the FSA. Being a former member of Bashar's inner circle, Man'af is one of the highest-ranked defectors. Man'af and his family currently reside in Paris.

*Sources:*

New York Times, 'General confirms defection from Syria', 24 July 2012

BBC News, 'Profile: Manaf Tlass', 6 July 2012

Mediawerkgroep Syrië, 'Oud-generaal Manaf Tlass ontlucht Syrië', 7 July 2012

Syria Comment by Joshua Landis, 'Regime's top Sunni defects – General Manaf Mustafa Tlass flees to Turkey', 5 July 2012



### *Firas Tlass*

Firas Tlass (b. 1960) is the second child and first son of former Defence Minister Mustapha Tlass (see above). He belongs to the Sunni family closest to the Alawite regime and is one of Syria's leading businessmen. Firas studied business administration in Damascus and obtained a degree in commerce in Paris. In 1984 he founded the MAS firm (*Min Ajl Suria*, 'For Syria'), which deals with a host of commercial activities including the production of metal, cement, canned foods and dairy products. Firas is also involved in investment banking and real estate development. He is known as Syria's 'sugar king' and is regarded the second-richest person in Syria, after Bashar al-Assad's cousin Rami Makhlouf (see below). Firas is in business with the extended Assad family, such as the sons of Hafez al-Assad's brother Rif'at. He is married to Rania Jabri, who is from a leading Sunni family from Aleppo. Under Bashar's rule, Firas was a fervent advocate of liberalization policies. In 2011, during the uprising, the business tycoon left Syria for Egypt or Dubai and in July 2012, he announced his support for Bashar's departure. Firas also claimed he provided the Free Syrian Army with humanitarian and relief aid. Elements of the opposition, however, regard Firas with suspicion, because the MAS firm has been an important supplier to the Syrian army. Other sources even accuse Firas of funding the shabiha. It is believed that Firas currently lives in Dubai and Paris.

#### *Sources:*

Mediawerkgroep Syrië, 'Oud-generaal Manaf Tlass ontvlucht Syrië', 7 July 2012

[www.firastlass.com](http://www.firastlass.com)

Shmuel Bar, 'Bashar's Syria: The Regime and its Strategic Worldview', Institute for Policy and Strategy IDC Herzliya, 2006

Syria Comment by Joshua Landis, 'Regime's top Sunni defects – General Manaf Mustafa Tlass flees to Turkey', 5 July 2012

### *Rami Makhlouf*

Rami Makhlouf (b. 1969) is the son of Mohammad Makhlouf, the brother of Hafez al-Assad's Alawite wife Anisa Makhlouf. The Makhloufs are from the powerful Alawite Haddad tribe (also referred to as *Haddadin*). As many members of Hafez's extended family, Mohammad Makhlouf had made a fortune, notably in state companies. As a full maternal cousin of Bashar, Rami was born into the president's inner circle. Being connected insiders, members of the Makhlouf family swarmed over the growing private sector in the 1990s. Rami in particular built a business empire that penetrates nearly every sector of the economy, including banking, heavy industry, telecommunications, transport, oil, tourism and real estate. He is the largest shareholder in private holdings such as Cham Holding, Ramak and



Dex Technologies, and owns numerous companies including Syria's primary telecom provider SyriaTel. It is said he 'owns' 60% of Syria's economy and that every (foreign) investor needs to 'go through' Rami. He also has an extensive regional business network, particularly in the Gulf. A 'household name' attached to Rami Makhoulf is **Nader Qilaai**, who is his business manager. Rami is regarded as Syria's greatest beneficiary and facilitator of public corruption, with significant political influence. During the uprising, he was targeted as the symbol of the regime's cronyism, which led to his decision to 'step down' from business to focus on charitable activities. He is regarded – although this is impossible to confirm – as an important regime financier. Given reports on the transfer of billions of dollars of Rami's assets to the Gulf over the past year, it is believed Rami currently resides outside Syria. The business mogul is also the target of EU and US sanctions.

*Sources:*

<http://syrianrevolutiondigest.blogspot.nl/2011/07/tomorrows-leaders.html>, accessed on 10 August 2012

Reuters, 'Rami Makhoulf: Bashar Assad's hated billionaire cousin', 18 July 2012

Time World, 'Meet the Assads: A look at the Syrian strongman's family', 30 January 2012

Al Akhbar English, 'Rami Makhoulf: Buying Syria one bank at a time', 10 July 2012

*Hafez Makhoulf*

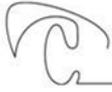
Hafez Makhoulf (b. 1971) is the older brother of Rami Makhoulf (see above) and a full cousin and childhood friend of the president. Unlike his father and brothers, Hafez started a military career and currently heads the General Intelligence Directorate of Damascus, one of the most prominent positions in the security apparatus. The Directorate has a leading role in responding to the uprising. Hafez is also known for having survived the 1994 car crash that killed Bashar's older brother Basil, who was being groomed to succeed former president Hafez al-Assad. Hafez Makhoulf has been sanctioned by the US and EU for his involvement in the violence against peaceful protesters. Hafez appealed in court to 'unfreeze' his assets held in Swiss banks, which was rejected by Switzerland's supreme court.

*Sources:*

BBC News, 'Bashar al-Assad's inner circle', 30 July 2012

Shmuel Bar, 'Bashar's Syria: The Regime and its Strategic Worldview', Institute for Policy and Strategy IDC Herzliya, 2006

<http://syrianrevolutiondigest.blogspot.nl/2011/07/tomorrows-leaders.html>, accessed on 10 August 2012



### *Iyad and Ihab Makhoulf*

Iyad and Ihab Makhoulf (b. 1973) are twins and the youngest sons of the prominent Syrian businessman and Alawite regime crony Mohammad Makhoulf. They are Bashar al-Assad's full cousins. Both have a large stake in the Makhoulf family's private companies. Among other positions, Ihab is the vice-president of Syria's leading telecom company SyriaTel (owned by Rami Makhoulf). He is also the caretaker of Rami's businesses abroad. Like his brother Hafez (see above), Iyad is a senior security official within the General Intelligence Directorate and was involved in the crackdown on anti-regime protestors. Both men are sanctioned by the US and the EU: Ihab for his alleged funding of the regime and the military, and Iyad for his involvement in regime violence during the uprising.

#### *Sources:*

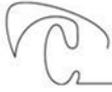
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<http://syrianrevolutiondigest.blogspot.nl/2011/07/tomorrows-leaders.html>, accessed on 10 August 2012

### *Sanqar family*

The Sanqar family (also referred to as the Sanqar group and also transliterated as Sankar family) is a leading business family in Syria. The group is led by three brothers: Mohammad, Ali and Wassem. The family belongs to the traditional Sunni business elite, a group that benefited from privileges distributed by Hafez al-Assad's regime and enjoyed increased opportunities for the private sector during the liberalization period. They owe their fortune to their position within the state-business networks that emerged during Hafez's rule and was consolidated during the 1990s. Their prime business sector is transport – the Sanqars own a number of luxury car companies – but they are also involved in tourism and agricultural production. Under Bashar's rule, however, large sectors of the economy were 'taken over' by members of the president's inner circle (chief among them Rami Makhoulf, see above) which came at the expense of the Sanqar family's position. In May 2011, Ali and Wassem were present at a conference organized by the Syrian opposition in Turkey. However, they have not publicly aligned themselves with the anti-regime movement.

*Sources:*

The Guardian, 'Syrian businessmen back opposition conference', 30 May 2011

Bassam Haddad, 2012, *Business Networks in Syria. The political economy of authoritarian resistance*, Stanford: Stanford University Press, pp. 106-111 and p. 198

*Shalish family*

The sister of former president Hafez al-Assad married into the Alawite Shalish family from the Latakia area, that subsequently became one of the most prominent and wealthy families in Syria. The political and economic influence of the Shalish family is comparable to that of the Makhloufs (see above). The nephews of Bashar al-Assad in particular, brothers **Dhu al-Himma** (b. 1956) and **Riyad** (year of birth unknown), are part of the president's inner circle. Dhu al-Himma is head of the Presidential Security, an elite unit of the security apparatus, and Riyad made a fortune through his construction and contracting company SES International, which was also active in automobile imports. Years ago, SES International was sanctioned by the US for transporting 'military goods' to Saddam Hussein's regime prior to 2003. Dhu al-Himma and Riyad have allegedly also been involved in illicit activities including money laundering. In June 2011, the Shalish family was sanctioned by the US and EU for its role in the suppression of the Syrian uprising. Interestingly, it is said that the influence of Dhu al-Himma in Bashar's inner circle has been increasing during the conflict, notably because of Shalish's willingness to do the regime's 'dirty work', including providing financial support to the much-feared *shabiha* militias. Also, accordingly, the regime welcomes the support of the Shalish family, especially as it is relatively small, posing less of a threat to the ruling family.

*Sources:*

Foreign Affairs, 'The structure of Syria's repression', 5 May 2011

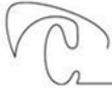
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Silobreaker, 'Biography for Riyadh Isa Shalish', 15 January 2009

Silobreaker, 'Biography for Dhu al-Himma Shalish', 15 January 2009

*Nahas, Aidi and Attar families*

Sa'ib Nahas, Uthman al-'Aidi and Abdul Rahman al-'Attar (and their families) are often referred to as the 'troika' of Syrian business in the 1970s. At the time, under Hafez's rule, ties between the state and business were largely informal and these businessmen remained



faceless for a decade. As the first members of the new private bourgeoisie in the 1970s, Sa'ib, Uthman and Abdul Rahman were allowed to establish private companies. Initially, they were mainly involved in tourism and transport (including state enterprises) but the Sa'ib Nahhas group in particular is an example of economic diversification: it spans numerous sectors including commerce, industry, transport, tourism and commerce. Particularly under Bashar's rule, other businessmen, notably relatives of the president, have surpassed the reputation and wealth of these families.

*Source:*

Bassam Haddad, 2012, *Business Networks in Syria. The political economy of authoritarian resistance*, Stanford: Stanford University Press, pp. 106-111 and p. 198

*Abdullah al-Dardari*

Abdullah al-Dardari was a leading government figure under Bashar al-Assad's rule. In 2005, he assumed the post of Deputy Prime Minister for Economic Affairs and before that he was the Head of the State Planning commission in for Syria. Al-Dardari studied international political economy in the US and economics in London. As a professional technocrat in the 2000s al-Dardari was in charge of implementing liberal reforms as part of the Social Market Economy announced by Bashar al-Assad. Al-Dardari is a non-Ba'th Party member, but was a close aide to the president. He became the face of Syria's liberal economic policy and 'Western-style' reforms. In early 2011, however, during the cabinet reshuffle, his position was removed. The exact reasons for this move are unknown. It could be explained by president Bashar's re-orientation on public sector investments – instead of private sector expansion – during that period. It is also argued that al-Dardari was used as a scapegoat for some of the ill-received economic measures, such as cuts in subsidies. In late 2011, Abdullah al-Dardari assumed the post of Director of the Economic Development and Globalization Mission at the UN Economic and Social Commission for Western Asia (UN-ESCWA).

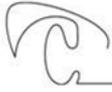
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### *Faisal al-Qudsi*

Faisal al-Qudsi is the son of the former Syrian president Nazem al-Qudsi (1961–63). Faisal owns a London-based investment banking firm and has been heavily involved in private investments in Syria. He is one of the few top Syrian businessmen who publicly spoke out about, and against, Assad's regime. In February 2012 he stated that the Syrian regime was 'being crippled' because of sanctions, and that the regime solely relies on Iranian support. He also said that many Syrian businessmen can no longer operate inside Syria and have moved their activities abroad.

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### *Mohammad Hamsho*

Mohammad Hamsho is a prominent Sunni businessman with close ties to the ruling family. He was the first member of the Syrian business community to be sanctioned by the US in 2011, a move that sent a strong message to the pro-Assad business community. Hamsho founded Hamsho Group International, a firm based in the United Arab Emirates that is involved in multiple sectors of the Syrian economy. Hamsho and his company were targeted by sanctions for managing the financial interests of Maher al-Assad (Bashar's younger brother and commander of the Republican Guard). Besides being Maher's right hand, Hamsho is also a member of the Syrian parliament, a position he allegedly 'bought' with large sums of money. As is the case with many other members of Syria's business elite, the current whereabouts of Hamsho are unknown.

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