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The Political Economic context of Syria's Reconstruction:
A prospective in light of a legacy of unequal development

Joseph Daher[1]

Executive Summary

Syria's accelerated implementation of neoliberal policies in the decade following Bashar al-Assad's ascent to power in 2000 benefited the Syrian upper class and foreign investors, particularly from the Gulf monarchies and Turkey, at the expense of the vast majority of Syrians, who were hit by inflation and the rising cost of living.

The Syrian economy has since been transformed by vast destruction and territorial fragmentation linked to the loss of state sovereignty in several areas of the country. This fragmentation has led to the creation of "multiple war economies" with various local and foreign actors involved in their dynamics. As the intensity of the war diminishes, new economic transformation in the framework of reconstruction will be the likely avenue through which the regime and crony capitalists consolidate their political and economic power and domination over Syrian society while providing foreign allies with a share of the market to reward them for their assistance.

In this framework, the reconstruction plan of the Syrian government, which remains underdeveloped, will fortify and strengthen the patrimonial and despotic character of the regime and its networks, while being employed as a mean to punish or discipline former rebellious populations. At the same time, the reconstruction process will force the Damascus' regime to deal with a series of contradictions and challenges that could be translated into opportunities for local and external actors.

Introduction

As the Assad regime began to rack up military victories and recapture territories with the assistance of its foreign allies, it began to turn to the issue of reconstruction. While the legal framework for reconstruction dates back as early as Decree 66 of 2012 and some reconstruction of services and infrastructure have already occurred in strategic locations, discussions about reconstruction became more serious at the beginning of 2017 following the reoccupation of Aleppo. At the same time, various diplomatic negotiations on the international scene sought to endorse processes that supported the survival of the Damascus regime and its structures. Most international and regional states have now accepted that the Assad-led regime will remain in power.

Although the war is not finished, the question of reconstruction has become omnipresent in debates on Syria, both within Western diplomatic and policymaking

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circles but also in the narrative of the Syrian regime and its foreign allies.[2] As of mid-2018, estimates for the cost of reconstruction ranged between $350 to $400 billion[3], figures likely to whet the appetite of national and foreign actors alike.

This research first seeks to deepen the understanding and analysis around reconstruction dynamics. In this approach, it is important to first review Syria's economic policies in the decade prior to the uprising, which considerably enriched a small strata of businessmen affiliated with the regime while increasing social inequalities and impoverishing large sectors of society. The pre-war socio-economic reality of Syrian society, in particular its inequalities, is fundamental to comprehending the current reconstruction dynamics.

This article then examines how the war transformed the political economy of Syria by considering how war's physical destruction has affected the country's economic structure. In this section, the war economy and its characteristics are analysed with a specific emphasis on crony capitalists, newly implemented regulations and laws, and steps taken towards rewarding the regime's allies.

Finally, the article considers possible scenarios and prospects based on the conflict's current dynamics to consider new lines of research in relation to the topic of the war economy and the reconstruction process. Just as the war and its destruction have been used by the regime to intensify neoliberal policies and secure further political power, the way that reconstruction will be shaped presents another opportunity for those in power to extend their political and economic domination of Syria.

I. The Syrian economy under Bashar al-Assad before 2011

The decade following the arrival to power of Bashar al-Assad and subsequent accelerated liberalization of the economy was marked by an unstable regional political context. This includes primarily the US- and UK-led 2003 war and occupation of Iraq, a subsequent influx of between 1 and 1.5 million refugees into Syria, and Syria's military withdrawal of Lebanon in 2005. At the same time, Syria faced rapid demographic growth,[4] declining oil production,[5] and a severe drought between 2007 and 2009.

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[2] For example, Russian president Vladimir Putin has called on Europe to contribute to the reconstruction of Syria to allow millions of refugees to return home. (see https://www.theguardian.com/global/2018/aug/18/putin-urges-europe-to-help-rebuild-syria-so-refugees-canreturn). On the other hand, the EU has stressed repeatedly that it will be ready to assist in the reconstruction of Syria only when a comprehensive, genuine and inclusive political transition, negotiated by the Syrian parties in the conflict on the basis of UN Security Council Resolution 2254 (2015) and the 2012 Geneva Communiqué, is firmly under way. Numerous reports have been published to reflect this position (see this link http://www.europarl.europa.eu/legislative-train/theme-europe-as-a-stronger-global-actor/file-eu-strategy-forsyria).

[3] McDowall, Angus (2018), "Long reach of U.S. sanctions hits Syria reconstruction", *Reuters*, https://www.reuters.com/article/us-mideast-crisis-syria-sanctions/long-reach-of-u-s-sanctions-hits-syria-reconstruction-idUSKCN1LI06Z.

[4] In recent years Syria has experienced one of the highest population growth rates in the world, ranked ninth by the United Nations on a list of the fastest growing countries between 2005 and 2010 (Sands, Phil (2011), "Population surge in Syria hampers country's progress", *The National,* *https://www.thenational.ae/world/mena/population-surge-in-syria-hampers-country-s-progress-1.448497*). Syria's total population was 12.1 million in 1990, 17.9 million in 2003, and approximately 21 million in 2010. (Raphaeli, Nimrod, (2007), "Syria's Fragile Economy", *Middle East Review of Inter-national Affairs*, vol. 11, No. 2).

The structural impact of neoliberal policies: the decline of production and rise of informality

Many scholars argue that widespread economic marginalization and intense socio-economic grievances eroded the Syrian regime's political base and constituted one of most important causes for the eruption of the uprising in Syria.[6] More broadly, the 2011 uprisings are rooted in the specific modalities of capitalist production in the Middle East and North Africa. Behind the appearance of decent macroeconomic performance, MENA countries suffered and continue to suffer from similar underlying economic symptoms that trace back decades. This includes the development and expansion of particular economic sectors - particularly in services -and the concurrent decline of productive sectors, very low employment rates associated with extremely high rates of skilled migration i.e. brain drain, a rentier-state model for managing resources (including non-natural resources), and corruption in the form of a clannish oligarchy that in some cases includes military elites.[7]

Syria underwent an accelerated implementation of neoliberal policies[8] in the decade after Bashar al-Assad took power in 2000. This process was characterised mainly by extensive privatization, liberalization, and the reduction of subsidies in many products and services. This process was not absolute as the Syrian state continued to play a significant direct role in the economy by employing a large number of Syrians; the state also did not sell major state assets during this period except some plots of land around the Euphrates.

Liberalization and privatization policies also represented an instrument with which the new ruler could consolidate his power. Unlike his father, Bashar allowed the World Bank and the IMF to intervene in the process of economic liberalization. In 2005, the "social market economy" was adopted as a new economic strategy at the Baath Party's 10th Regional Conference. In other words, the private sector rather than the state would become a partner and leader in the process of economic development and in providing employment.[9][10] The aim was to encourage private accumulation principally through

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[5] Oil production declined from 527,000 b/d in 2003 to 379,000 b/d in 2010, making Syria a net oil importer by 2008. In 2010, oil production however still made up 9.5 percent of Syria's GDP by official accounts, while oil exports remained the most import source of foreign currency earnings.

[6] Dahi, Omar and Munif, Yasser (2012), "Revolts in Syria: Tracking the Convergence Between Authoritarianism and Neoliberalism", *Journal of Asian and African Studies*, No. 47, Vol. 323, pp. 323-331; Abboud, Samer (2014), "Syria's War Economy", *Carnegie Middle East Center*, http://carnegie-mec.org/diwan/54131.

[7] Mouhoub (-El) Mouhoud (2011), "Économie politique des révolutions arabes : analyse et perspectives", *Maghreb – Machrek*, No. 210.

[8] I understand neoliberalism as a particular organization of capitalism to ensure the conditions for capitalist reproduction at a global scale and as part of a ruling class offensive, which ran through the recessions in the 1970s and 1980s and resulted in the restructuring and generation of new and expanded forms of capitalist accumulation (Cimorelli, Eddie (2009), "Take neoliberalism seriously", *International Socialism*, http://isj.org.uk/take-neoliberalism-seriously/). The basic goal of neoliberalism, as David Harvey has emphasised, is the development of a new "regime of capital accumulation characterised by a minimal direct intervention of the state in the economy, limited to setting up the legal, political and military functions required to guarantee the proper functioning of markets and their creation in those sectors where markets do not exist." (cited in Roccu, Roberto (2012), *Gramsci in Cairo: Neoliberal Authoritarianism, Passive Revolution and Failed Hegemony in Egypt under Mubarak, 1991-2010,* (PhD), University of London, London School of Economics, p.72).

[9] Abboud, Samer (2015), "Locating the "Social" in the Social Market Economy", in Hinnebusch R. (ed.) *Syria: From authoritarian upgrading to revolution?* (Syracuse University Press, Syracuse, 2015) p.55.

marketization of the economy while the state withdrew from key areas of social welfare provision, aggravating already existing socio-economic problems. Between 2000 and 2010, more than 1000 new laws and decrees were implemented in this process of liberalizing the economy.[11]

Alongside increasing liberalization and privatization was the increase in informal labour. The Syrian government's 10th five-year plan of 2005 identified an increase in the share of vulnerable employment since the late 1980s, including self-employed, contributing family work, and employment in the informal sector. The 2005 plan estimated that informal labour contributed about 30 percent of total employment and about 30-40 percent of GDP. In 2003 and 2004, the informal sector employed 48 percent of the poor in rural areas and 31 percent of the poor in urban areas. Particularly noteworthy is more than half of informal sector workers were below the age of 30, signalling decreasing availability of economic opportunities for Syrian youth during the period of liberalization.[12]

In the decade prior to the uprising, investment inflows drove a boom in trade, housing, banking, construction, and tourism.[13] Only 13 percent of all foreign and domestic investments throughout the 2000s were in manufacturing areas.[14] At the outset of the war in 2011, industry and mining accounted for 25 percent of GDP but manufacturing production contributed merely 4 percent of GDP.[15] Productive sectors as a share of the economy[16] diminished from 48 percent of GDP in 1992 to 41 percent in 2010;[17] as production declined, the share of wages from the national income as opposed to profits and rents also decreased in absolute terms from 41 percent in 2004 to less than 33 percent in 2008-2009, meaning that profits and rents commanded more than 67 percent of the GDP.[18] The service sector's share in value-added increased from 41.9 percent in 2000 to 55.5 percent in 2008. This sector represented 84 percent of the growth

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[10] It is important to remember that Syria's economic system was characterized by a form of crony or mafia capitalism in which economic opportunities were dependent on loyalties to the regime. Alienated and marginalised elements of the bourgeoisie not connected to the regime did not constitute a strong element of support for the regime. No large business deal or venture could be effected without the participation of crony capitalists linked with the regime. In this framework, the distinction between public and private sectors was blurred.

[11] Lyme, Rune Friberg (2012), "Sanctioning Assad's Syria, Mapping the economic, socioeconomic and political repercussions of the international sanctions imposed on Syria since March 2011", https://www.diis.dk/files/media/publications/import/extra/rp2012-13_sanctioning_assads_syria_web_1.pdf, p.14-15.

[12] ILO (2010), "Gender, Employment and the Informal Economy in Syria", http://www.ilo.org/wcmsp5/groups/public/---dgreports/---gender/documents/publication/wcms_144219.pdf, p.3.

[13] Hinnebush, Raymond (2012), "Syria: From authoritarian upgrading to revolution", *International Affairs*, Volume 88, Issue 1, p. 95–113.

[14] Abboud (2015), op. cit., p. 55.

[15] Trade liberalization, especially the treaty with Turkey and the export of massive Turkish products, did play a negative role in the dislocation of productive resources and in the termination of many local manufacturing plants, particularly those situated in the suburbs of main cities where many protests in 2011 initially began. See Matar Linda (2015), *The Political Economy of Investment in Syria*, Macmillan, UK, Palgrave, p.12 and p.115

[16] We understand by productive the primary (agriculture, mining and other natural resource industries) and secondary (manufacturing, engineering and construction) sectors of the economy.

[17] Marzouq, Nabil (2013), "Al-tanmîyya al-mafqûda fî sûrîyya", in Bishara A. (ed.), *Khalfîyyât al-thawra al-sûrîyya, dirâsât sûrîyya,* Doha, Qatar, Arab Center for Research and Policy Studies, p. 40.

[18] Marzouq, Nabil (2011), "The Economic Origins of Syria's Uprising", *Al-Akhbar English*, https://english.al-akhbar.com/node/372.

registered during this period.[19] Economic growth, therefore, had become even more rent-based, dependent on oil-export revenues, geopolitical rents,[20] and capital inflows including remittances, which accounted for 3 percent of GDP in 2008.

Shifts in the social distribution of wealth and poverty: profiteers and losers

Neoliberal policies largely benefitted the Syrian upper class and foreign investors, particularly from the Gulf monarchies and Turkey, at the expense of the vast majority of Syrians who were hit by inflation and the rising cost of living. During this period, the government also significantly reduced taxes on business sector profits both for groups and individuals. These measures were implemented despite the fact that tax evasion was already widespread, reaching 100 billion Syrian pounds (SYP) in 2009 -around $2 billion at the time -according to some estimates.[21]

Tax liberalization measures were accompanied by reductions in subsidies, a hiring freezing in the public sector, and a reduction of the state's role in domestic investment. Social security spending was reduced considerably by cutbacks to the pension system in the 2000s. Subsidies were removed on key food products, gas and other energy sources. Price liberalization made many products that are essential to everyday life increasingly unaffordable for low-income families.[22] The consumer price index on the categories of bread, cereal, and meat and vegetables rose respectively by 51 percent, 59 percent and 23 percent over the period 2006-2010 according to official figures, which some consider to be an underestimation.[23]

Healthcare and education spending did not rise in accordance with population growth. Public expenditure on education and healthcare as a percentage of GDP was approximately 4 and 0.4 respectively before 2010—low in comparison to OECD countries which spent on average 13.3 and 9 respectively in 2010.[24] In this context, the government embarked on the gradual liberalization of the education system, in particular establishing private universities and colleges. In healthcare the government tried to transform medical units into independent economic units financially dependent on monetizing its services. Decree 8 of February 16, 2010, for instance, made several public hospitals independent economic bodies.[25] This process was accompanied by the reduction of the quality and quantity of public health services, which forced Syrians to turn to the private sector in order to enjoy basic services.

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[19] The World Bank (2011), "Economic Challenges and Reform Options for Syria: A Growth Diagnostics Report (CEM, First Phase)", http://siteresources.worldbank.org/INTDEBTDEPT/Resources/468980-1218567884549/5289593-1224797529767/5506237-1270144995464/DFSG03SyriaFR.pdf, p. 46

[20] For example, at the Baghdad Arab Summit in 1978, which was organised to oppose the Egyptian-Israeli Camp David agreement, Syria was awarded a $1.8 billion annual grant for a ten-year period to reward its "struggle" against Israel.

[21] Seifan, Samir (2013), "Sîyâsât tawzî' al-dakhl wa dawrhâ fî al-înfijâr al-îjtimâ'î fî Sûrîyya", in Bishara A. (ed.), *Khalfîyyât al-thawra al-sûrîyya, dirâsât sûrîyya,* Doha, Qatar, Arab Center for Research and Policy Studies, p. 109

[22] Abboud (2015), op. cit., p. 55.

[23] Matar (2015), op. cit., p. 116.

[24] The Organization for Economic Cooperation and Development (OECD) is an intergovernmental economic organization with 36-member countries from the North and South America to Europe and Asia-Pacific. They include many of the world's most advanced countries but also emerging countries like Mexico, Chile and Turkey.

[25] Marzouk (2013), op. cit., p. 49.

Social services to ease rising inequalities increasingly shifted from state spending to private charities led by bourgeois and religiously conservative layers of Syrian society, especially religious associations. In 2004, of 584 charitable organizations, 290 were registered Islamic organizations. Of the more than 100 charitable organizations operating in Damascus, approximately 80 percent were Sunni Muslim before the uprising in 2011.[26] These charities operated a network that served about 73,000 families with a budget of approximately $18 million.[27] In 2009, out of 1485 associations, 60 percent were charities, the vast majority of them religious.[28] Government spending policies therefore helped strengthen the socio-economic role of religious associations, both Islamic and Christian, at the expense of the state.

In agriculture, land privatization took place at the expense of tens of thousands of peasants from the northeast, particularly following the drought between 2007 and 2009 in which one million peasants received international aid and food supplies, driving 300,000 from north-eastern regions of Syria to Damascus, Aleppo and other cities. However, this social catastrophe should not be perceived as the consequence merely of a natural disaster. Even before the drought, Syria lost 40 percent of its agricultural workforce between 2002 and 2008, dropping from 1.4 million to 800,000 workers.[29]

Agricultural liberalization measures under Assad in late 2000 saw the privatization of state farms in the north after more than four decades of collective ownership. The real beneficiaries of this privatization were investors and entrepreneurs able to unlawfully rent out former state holdings.[30] Land ownership became increasingly concentrated in a small number of hands. Evidence of extreme inequality in the agricultural sector is that three quarters of all irrigated land was worked by only 28 percent of Syria's farmers -a privileged group. Meanwhile, another portion of Syria's farmers -49 percent of all farmers -worked just 10 percent of irrigated land, according to figures from 2008.[31]

Neoliberal policies and deepening processes of privatisation created new monopolies in the hands of relatives and associates of Bashar al-Assad and the regime. Key employment positions in the administration, the government, the military and security services also served as conduits for patronage. Rami Makhlouf, Assad's cousin and the richest man in Syria, represented the mafia-style process of privatization led by the regime. His vast economic empire included telecommunications, oil and gas, construction, banks, airlines, and retail among others.[32] In contrast, small and medium-sized enterprises, which had previously made up more than 99 percent of all businesses

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[26] Pierret, Thomas and Selvik, Kjetil (2009), "Limits of "Authoritarian upgrading" in Syria: Private welfare, Islamic Charities, and the Rise of the Zayd Movement", *International Journal of Middle East Studies*, Vol. 41, No. 4, p. 601.

[27] Khatib Line (2011), *Islamic Revivalism in Syria, The rise and fall of Ba'thist secularism,* London and New York, Routledge Studies in Political Islam, p.119.

[28] Ruiz de Elvira, Laura (2013), "Chapter 4: Syrian Charities at the Turn of the Twenty-First Century: Their History, Situation, Frames and Challenges" in Kawakibi S. (ed.) *Syrian Voices From Pre-Revolution Syria: Civil Society Against all Odds,* HIVOS and Knowledge Programme Civil Society in West Asia, https://hivos.org/sites/default/files/publications/special20bulletin202-salam20kawakibi20_6-5-13_1.pdf, p. 30.

[29] Ababsa, Myriam (2015), "The End of a World Drought and Agrarian Transformation in Northeast Syria (2007–2010)", in Hinnebusch R. (ed.) *Syria: From authoritarian upgrading to revolution?* (Syracuse University Press, Syracuse, 2015) p. 200.

[30] Ababsa 2015, op. cit, p. 200.

[31] FIDA (2009), "République Arabe Syrienne, Programme d'Options Stratégiques pour le Pays", p.2.

[32] Seifan (2013), op. cit., p. 113.

in Syria, were for the most part negatively affected by marketization and economic liberalization throughout the 2000s.[33]

Assad's political rule and economic policies led to unprecedented impoverishment while wealth inequalities continued to increase. Despite GDP growing at an average rate of 4.3 percent per year from 2000 to 2010 in real terms, this growth only benefitted a small strata of economic elites. GDP more than doubled, passing from $28.8 billion in 2005 to around $60 billion in 2010.[34] In 2003-2004, spending on the poorest 20 percent of the population accounted for only 7 percent of total expenditures, while the wealthiest 20 percent were the beneficiaries of 45 percent of total expenditures. In 2007, the percentage of Syrians living below the poverty line was 33 percent, representing approximately seven million people, while 30 percent of Syrians were only just above this level.[35] This represented a large shift from the late 1990s, when only 14.3 percent were recorded as living below the poverty line.[36] Poverty was concentrated particularly in rural areas, with 62 percent of Syria's impoverished living in rural areas compared to 38 in urban areas as of 2004. At the same time just over half of all Syria's unemployed were located in rural areas.[37] The impoverishment of Syria's rural areas has continued since the 1980s. However, the droughts beginning in 2006 accelerated the rural exodus.

II. The Syrian economy in wartime

The Syrian economy suffered as a result of vast and widespread destruction throughout the country. GDP dwindled from $60.2 billion in 2010 to $12.4 billion in 2016, according to the Central Bureau of Statistics.[38] In addition to this change in size, the structure of Syria's economy has also changed as a result of the war.

Measuring the destruction

As a result of the destruction, the structure of GDP changed dramatically with agriculture and government services together accounting for 50 percent of total GDP in 2013 and 46 percent in 2014—each a growing share within an economy shrinking overall.[39] Public sector employment represented around 55 percent of all employment in 2014[40] and remained predominant throughout the uprising. By the end of 2016, agriculture still accounted for between 26 and 36 percent of GDP and acted as a safety

33 Abboud, Samer (2017), "The Economics of War and Peace in Syria", *The Century Foundation*, https://tcf.org/content/report/economics-war-peace-syria/?agreed=1.
34 The World Bank Group (2017)," The Toll of War: The Economic and Social Consequences of the Conflict in Syria", http://www.worldbank.org/en/country/syria/publication/the-toll-of-war-the-economic-and-social-consequences-of-the-conflict-in-syria.
35 Abdel-Gadir Ali, Abu-Ismail Khalid and El-Laithy, Heba (2011), *Poverty and Inequality in Syria (1997-2007)*, UNDP, http://www.undp.org/content/dam/rbas/doc/poverty/BG_15_Poverty%20and%20Inequality%20in%20Syria_FeB.pdf, p. 2-3.
36 Matar (2015), op. cit., p. 109
37 Abdel-Gadir, Abu-Ismail and El-Laithy (2011), op. cit, p.3
38 The Syria Report (2018), "Government Prioritises Spending on Core Constituency", 9 January, http://www.syria-report.com/news/economy/government-prioritises-spending-core-constituency.
39 Syrian Centre for Policy Research (2014), *Syria. Squandering Humanity, Socioeconomic Monitoring Report on Syria*, https://www.unrwa.org/sites/default/files/scpr_report_q3-q4_2013_270514final_3.pdf, p. 4
40 Syrian Centre for Policy Research (2015), *Alienation and Violence, Impact of Syria Crisis Report 2014*, https://www.unrwa.org/sites/default/files/alienation_and_violence_impact_of_the_syria_crisis_in_2014_eng.pdf, p. 34

net for some 7.6 million Syrians, including internally displaced persons.[41] The significant share of the agricultural and public sectors in GDP was not, however, the result of net growth within these sectors. Rather this was a consequence of the massive destruction that occurred in other sectors. The agriculture and public sectors indeed contracted in real terms by more than 40 percent.[42] In 2016, the World Food Programme found that losses in Syria's agricultural sector amounted to $16 billion from the period since 2011.[43]

The sector most severely affected was the extractive industry, including both mining and hydrocarbon production, which shrank 94 percent in real terms since 2010. Manufacturing, domestic trade, and construction also decreased by more than 70 percent on average.[44] Throughout the period of Syria's neoliberal reforms the manufacturing sector was falling apart, becoming either fragmented into small workshops with low productivity and decreasing competitiveness or scattered industrial establishments in need of political support and protection.[45] In 2016, up to 90 percent of industrial enterprises in the main conflict areas such as Aleppo had closed down while the remaining ones operated at only 30 percent capacity.[46]

Moreover, the closure of many workplaces since the beginning of the uprising in March 2011 led to massive job losses. The economy lost 2.1 million actual and potential jobs between 2010 and 2015. Unemployment in 2015 reached 55 percent. Youth unemployment increased from 69 percent in 2013 to 78 percent in 2015.[47]

Despite this increase in unemployment, at the end of 2017, businessmen in various Syrian industries were complaining of a lack of manpower. This was mainly a result of massive emigration of working-age skilled workers and the loss of less-skilled workers through death, injury, arrest, exile and other war-related factors. The lack of internal mobility of Syrians due to insecurity was another factor exacerbating the availability of workforce. In April 2017, a report by the FAO and the World Food Programme cited a shortage in farm labourers as a challenge facing the Syrian agricultural sector.[48]

The regime's resources, including its foreign currency reserves and fiscal revenues, were reduced considerably throughout the war years. In response, the government engaged in new austerity measures and reduced subsidies on essential products, negatively impacting the living conditions of the country's poor and working class. Oil revenues, which accounted for a large portion of state revenues until 2012, evaporated completely

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[41] Enab Baladi (2018), "Battle for Idleb: Is the Armed Opposition Losing its Popular Base?", in *The Syrian Observer*,https://syrianobserver.com/EN/features/21408/battle_idleb_is_armed_opposition_losing_popular_base.html; The Syria Report (2018), "Government Prioritises Spending on Core Constituency", op. cit.

[42] Butter, David (2015), "Syria's Economy. Picking up the Pieces", *Chatham House,* https://www.chathamhouse.org/sites/default/files/field/field_document/20150623SyriaEconomyButter.pdf, p. 13.

[43] Enab Baladi (2018), "Battle for Idleb", op.cit.

[44] Butter (2015), op. cit., p. 13

[45] Syrian Centre for Policy Research (2016), *Confronting Fragmentation! Syria, Impact of Syrian Crisis Report* http://scpr-syria.org/publications/policy-reports/confronting-fragmentation/ , p. 6.

[46] The Syria Report (2016), "Aleppo Lost 90 percent of its Manufacturing Capacity", 29 March, http://www.syria-report.com/news/manufacturing/aleppo-lost-90-percent-its-manufacturing-capacity.

[47] ESCWA and University of St Andrews (2016), *Syria at War, Five Years On*, https://www.unescwa.org/sites/www.unescwa.org/files/publications/files/syria-war-five-years.pdf, p.28

[48] The Syria Report (2017), "Syrian Businesses Complain of Labour Shortages Despite Massive Unemployment", 28 November, http://www.syria-report.com/news/economy/syrian-businesses-complain-labour-shortages-despite-massive-unemployment.

while tax revenues declined considerably. In mid-2018, indirect tax revenues constituted 70 percent of the government's fiscal revenues.[49] The national budget for 2017 was 2.6 trillion SYP (around $5 billion as of late 2018) increasing in 2018 to 3.1 trillion SYP and increasing once again in 2019 to SYP 3.9 trillion.[50] In the 2019 budget, the reconstruction was not allocated more than 50 billion SYP, equivalent to $115 million.[51]

The conflict also generated increasing regional economic disparities. While the poverty rate increased in all governorates, it varied by region. Those governorates that witnessed intense conflict and had higher historical rates of poverty suffered most. Thus, people in Raqqa were the poorest with 91.6 percent of its inhabitants living below the overall poverty line, while those in Idlib, Deir Zor, and rural Damascus also suffered from high rates of overall poverty. The lowest rate was in Suwayda at 77.2 percent, followed by Lattakia, Damascus and Tartus respectively.[52]

At the same time, new hubs of economic investment appeared during the war, as a result of military conflicts raging in traditional areas of investments such as Aleppo, Homs, Hama and rural Damascus. The regions that were insulated from the extensive destruction and unrelenting violence profited economically from this situation by benefiting from the transfer of companies and industries. Public and private investments also grew significantly in these areas.

The province of Suwayda for example benefited from a greater share of investments throughout the years of the uprising because of its relative safety and proximity to the Syrian capital. It was, however, Syria's northwest coastal region whose economic situation improved most as a result of its relative stability throughout the war.[53] Together Suwayda, Tartus, and Lattakia hosted 68 percent of all the projects licensed by the Syrian Investment Agency.[54] In comparison, in 2010, their combined share had only amounted to 11 percent.[55]

In 2017 following years of steep decline, the Syrian business environment began to see improvements for some companies in certain sectors such as luxury hotels (e.g. Cham Palaces and Hotels), transport and logistics companies (Syrianair, Al-Ahliah Transport[56], Lattakia International Container Terminal,[57] and Damascus Cargo Village[58]). Al-Badia

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[49] Enab Baladi (2018), "Marsûm ya'fî al-sinâ'îîn min russûm tajdîd rakhs al-binâ'", 27 May, https://www.enabbaladi.net/archives/231136.
[50] Frieh (al-) M. (2018), "Cabinet approves state budget bill for 2019 at SYP 3882 billion", *SANA*, 21 October, https://www.sana.sy/en/?p=149355.
[51] Haddad, Wajih (2018), "Mûwâzanat 2019 al-sûrîyat: î'âdat al-î'mâr bi-115 milîyûn dûlâr", *al-Modon*, 9 November, https://www.almodon.com/arabworld/2018/11/9/.
[52] Mahmoud (al-), Hamoud (2015), "The War Economy in the Syrian Conflict: The Government's Hands-Off Tactics", *Carnegie Middle East Center,* https://carnegieendowment.org/2015/12/15/war-economy-in-syrian-conflict-government-s-hands-off-tactics-pub-62202.
[53] Khaddour Kheder (2016), *The Coast in Conflict: Migration, Sectarianism, and Decentralization in Syria's Latakia and Tartus Governorates*, Friedrich Ebert Stiftung, http://library.fes.de/pdf-files/iez/12682-20160725.pdf, p.46.
[54] The Syrian investment authority (SIA) is an investment authority established under LD. No.9 in 2007. The SIA took the place of the Investment bureau that had been functioning since the beginning of the 1990s.
[55] The Syria Report (2016). "Syrian Private Investment Dives, Continues Move to Coast, Suweida", 1 March, http://www.syria-report.com/news/economy/syrian-private-investment-dives-continues-move-coast-suweida.
[56] Al-Ahliah Transport operated a fleet of intercity passenger buses.
[57] The company managing the container terminal of the Port of Lattakia.

Cement, the only private sector cement company still operating in Syria, for example saw its revenues almost double from 13.8 billion SYP in 2016 to 26.7 billion in 2017, a large overall increase even accounting for currency depreciation over that period.[59]

The conquest of Eastern Ghouta and Daraa Province by pro-regime forces respectively in April and July 2018 would also promised to have a positive economic impact for the regime, although the conquest needed time to be converted into economic benefits. In Eastern Ghouta, following its recapture, intensive discussions among government circles and representatives of industry were held in late 2018 with a focus on accelerating the rehabilitation and rebuilding of hundreds of factories to boost the local economy and employment while bringing more security to Damascus. This region was previously a major supplier of food products to Damascus; in addition, it was also home to textile, chemicals, and furniture factories. However, industrial facilities suffered significant destruction. According to figures from the Ministry of Industry and the General Establishment for Chemical Industries, industrial companies suffered direct losses of 81 billion SYP due to damage to their facilities in Ghouta alone, while rehabilitating these facilities would cost double that.[60] The return of investors and inhabitants has also been delayed or prevented by the division of power of these areas by various security services.

In Daraa province, the conquest of the Nasib border crossing with Jordan was a major focal point strategically and economically. Its conquest on October 15, 2018 reopened key trade routes for Damascus. These include renewed access to the Gulf countries—an important market before 2011—and therefore an overall decrease in price for imports from from Jordan and the Gulf. Transit revenues to and from Lebanon would also increase as a result because Syria is the only land route for Lebanese exports to the Gulf and Iraq.[61] A few weeks prior to the recapture of the Nasib crossing, the Homs-Hama motorway reopened as well, further facilitating previously closed commercial routes.

War profiteering: deepening pre-war practises

Territorial fragmentation resulting from the state's loss of sovereignty in different areas of the country led to the creation of "multiple war economies" with various local and foreign actors involved in its dynamics. This fragmentation profoundly affected the stratification and composition of economic networks, particularly those of the elite.[62] Both in areas controlled by the armed opposition and in areas under regime control,

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[58] Damascus Cargo Village operated a storage and logistical center at the Damascus International Airport

[59] The Syria Report (2018), "Transport, Tourism Data Confirm 2017 GDP Growth Trend", 16 January, http://www.syria-report.com/news/economy/transport-tourism-data-confirm-2017-gdp-growth-trend; The Syria Report (2018), "Company Filings Confirm Improved Business Activity in 2017", 6 March, http://www.syria-report.com/news/economy/company-filings-confirm-improved-business-activity-2017.

[60] Enab Baladi (2018), "Assad's Government Aims at Accelerating the Economic Cycle in Ghouta", 20 July, https://english.enabbaladi.net/archives/2018/07/assads-government-aims-at-accelerating-the-economic-cycle-in-ghouta/#ixzz5Q8JBUzH5.

[61] Enab Baladi (2018), "Economic Normalization: A Weapon in the Syrian Regime's Hands", 28 July, https://english.enabbaladi.net/archives/2018/07/economic-normalization-a-weapon-in-the-syrian-regimes-hands/#ixzz5Q8QPctnV; The Syria Report (2018), "Jordan Invites Syrian Business Chambers", 31 July, http://www.syria-report.com/news/economy/jordan-invites-syrian-business-chambers.

[62] Abboud (2017), op. cit.; Leenders, Reinoud and Mansour, Kholoud (2018), "Humanitarianism, State Sovereignty and Authoritarian Regime Maintenance in the Syrian War", *Political Science Quarterly*, Vol.133, Issue 2, pp. 225-257; Jusoor for Studies (2018), *War Economy in Syria, Funding and inter-trade relations between the conflicting forces in Syria*, http://www.jusoor.co/details/War%20Economy%20in%20Syria/457/en.

similar "war economy" patterns and characteristics could be observed, such as an increase in informal economic activity, smuggling, extortionary violence and illegal activities, and the development of new centres of political power.

The security situation fostered the development of "war commanders" and the emergence of a "new guard" of nouveaux riche businessmen who accumulated enormous wealth throughout the years. To launder their money, war traders turned to a number of methods, most importantly buying and trading real estate, luxury cars, gold, or currency. This led to the emergence of new centres of power—although the Damascus-based regime remained the main one—which saw new entanglements between the new guard of businessmen, the army and the security sector more broadly.[63] By accumulating profits and power, these new power constellations came to exert a large degree of control over the lives of Syrians living in regime-controlled areas. At the same time, warlords were increasingly integrating into the formal economy by establishing formal companies which were registered as limited liabilities, or by participating in investment projects, including real estate, land and businesses.[64]

Similarly, in regions suffering sieges in opposition-held areas in which local populations suffered shortages of food, water, electricity, and fuel, all armed groups whether members of the Syrian Arab Army (SAA), loyalist militias, or military opposition factions exploited the situation to accumulate profit. Pro-regime armed forces erected checkpoints at strategic entry points to besieged areas, providing them with ample opportunities for illegal economic practices such as allowing goods in exchange for bribes. Local traders with connections to regime security forces also benefited from sieges. Often they would try to secure contracts from the highest levels of the regime to ensure monopoly over the supply of a certain good into a besieged area while simultaneously negotiating fees with the opposition-armed groups in control to get goods across checkpoints. Once goods were brought into a besieged area, traders typically hid or kept them and sold them strategically to maximize profits.[65]

Some armed opposition factions also profiteered from sieges. They often seized the best and most crucial supplies for battalion members while civic organizations and local councils struggled to meet civilians' basic needs. For example, some armed opposition groups in the besieged region of Eastern Ghouta dug tunnels to the Barzeh and Qaboun neighbourhoods and engaged in profitable trafficking. Jaysh al-Islam and its surrogate businessmen gained near-monopolistic control over food imports throughout the period they dominated these areas of Eastern Ghouta, especially after 2016. Traders were allowed to bring non-food items, like cigarettes, into Eastern Ghouta and sell these privately at a higher profit.[66] The control of the tunnels resulted in internal conflict between different armed opposition groups. Ghouta was the scene of many street protests by civilians accusing different armed opposition groups of profiteering and

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[63] Hamidi, Ibrahim (2016), "'The Walls of Fear' Return, Armed, to Damascus", 14 November, in *The Syrian Observer,* https://syrianobserver.com/EN/features/24873/the_walls_fear_return_armed_damascus.html.
[64] Shahdawi, Yazan (2018), "Hamâ: Talâl al-Daqâq min za'îm milîshîyâ îlâ "rajul al-â'mâl", *al-Modon*, 19 August, https://www.almodon.com/arabworld/2018/8/19/.
[65] Todman, Will (2016), "Sieges in Syria: Profiteering from Misery", *Middle East Institute*, https://www.mei.edu/sites/default/files/publications/PF14_Todman_sieges_web.pdf, pp. 4-8.
[66] Lund, Arun (2016), Into the Tunnels, *The Century Foundation*, https://tcf.org/content/report/into-the-tunnels ; Sadaki, Youssef (2016), "The Siege Economy of Eastern Ghouta", *Atlantic Council,* http://www.atlanticcouncil.org/blogs/syriasource/the-siege-economy-of-eastern-ghouta

seizing food and other products for themselves. Civilians also denounced opposition groups for having internal conflicts between themselves for control of these lucrative tunnels instead of fighting the regime.

In other areas, it was the control of border crossings with Turkey that became a priority for some armed opposition groups in order to accumulate capital. Control of these crossings turned into a source of conflicts between them. Ahrar al-Sham, for example, was the sole controller of the Bab al-Hawa crossing throughout 2015 and 2016, earning between $3.6 to $4.8 million per month.[67] Control over this crossing has been one of the main factors behind infighting between opposition armed forces since the beginning of the uprising, notably in the case of the conflicts between Hay'at Tahrir al-Sham (HTS) and Ahrar al-Sham in July of 2017.

Throughout the uprising, regime and armed opposition forces also imposed their own customs fees on goods crossing from areas they controlled to enemy-controlled areas. These unofficial commercial crossings benefited both sides economically. Among the most important of these routes was the one between regime-controlled Hama and opposition-held Idlib. Dozens of loads travelled this route both ways daily, the largest daily commercial traffic between the two armed sides.[68]

Trade in imported goods became a major source of lucrative business deals because of shortages due to vastly reduced domestic production, the absence of regime investments, and the need for specific goods like foods, pharmaceuticals and oil derivatives.[69] A Syrian pro-regime online publication, called *Sahibat al-Jalala*, claimed in mid-2016 that a handful of traders controlled as much as 60 percent of all Syria's import trade, indicating it was their connections with top regime individuals that allowed them to control such a large share of the market. The same publication had a few weeks earlier published a report indicating that two importers alone controlled 20 percent of all import trade each, two others controlled 10 and 5 percent respectively, and two others controlled 3 percent each.[70]

III. Wartime reconstruction plans

Syria's reconstruction is likely the main avenue through which the regime and crony capitalists will consolidate their political and economic power and domination over Syrian society as the intensity of the war decreases. Meanwhile reconstruction may provide the regime ample opportunities to reward foreign allies for their assistance. This helps explain why the regime has not ceased to promote new legislation to frame the reconstruction process, with a particular acceleration over the past two years. These new laws and war economy practices have benefited both crony capitalists historically known for their close links with the regime as well as a new economic elite affiliated to

[67] Tokmajyan, Armenak (2016), "The War Economy in Northern Syria", *The Aleppo Project*, https://www.thealeppoproject.com/wp-content/uploads/2016/12/War-Economy.pdf, p. 3.
[68] Sada al-Sham (2018), "'Unofficial' Cooperation Between Regime and Opposition at Commercial Crossings", 12 March, in *The Syrian Observer* https://syrianobserver.com/EN/features/20989/unofficial_cooperation_between_regime_opposition_commercial_crossings.html.
[69] SCPR (2015), op. cit. p. 29.
[70] Salam, Tamam (2016), "al-îhtikâr yûllad sirâ'ân 'ala nahesh al-lahem al-sûrî", 29 August, *al-Arabi al Jedid*, https://www.alaraby.co.uk/supplementeconomy/2016/8/28/.

the regime. At the same time, the role of the regime's foreign allies, which have been fundamental in the consolidation of an economy of dependency, will be central in the reconstruction process.

So far, with the exception of a project in the Damascus suburb of Basateen al-Razi, reconstruction has not focused on the rebuilding of large housing areas destroyed by the war. Rather, reconstruction so far has focused on the rehabilitation of roads and some services and infrastructure, such as electricity and water. This prioritization serves the need of specific economic sectors—internal trade, services, and industries—and serves to promote capital accumulation within the country.

The new legislative arsenal and its implementation

Decree 66 of 2012, which allowed the Damascus governorate to expel the populations of two large areas in Damascus,[71] was inspired by some aspects of a 2007 Damascus Master Urban Plan to raze and renovate these same neighbourhoods.[72] The implementation of this plan was interrupted by the uprising in 2011. This area was and is still considered an immensely lucrative real estate opportunity. It contains undeveloped farmland and informal housing with some parts within walking distance of the centre of Damascus.[73] Homs was also the target of reconstruction prior to 2011, and its corresponding reconstruction plan focused on three of the city's most destroyed districts -Baba Amr, Sultanieh and Jobar. This plan would rebuild 465 buildings, able to house 75,000 people, at a cost of $4 billion, according to Homs' governor, Talal al-Barazi.[74] The new urban plan took its inspiration from the past "Homs Dream"[75] project directed by the former governor of Homs, Muhammad Iyad Ghazal, who was dismissed by Bashar al-Assad at the beginning of the demonstrations in 2011 because he was the main target of protesters at that time in the city.

In April 2018, the Syrian government issued a new law, Decree No. 10,[76] which was a national expansion of Decree 66. In September, the Damascus Governorate Committee issued a report announcing the destruction and rebuilding under Law No. 10 of Tadamon district in Damascus. Other areas of Damascus such as Jobar, Barzeh, and

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[71] Decree 66 entered into force in September 2012 and allowed the government to "redesign unauthorised or illegal housing areas" and replace them with "modern" real estate projects with quality services (Ajib Nadi (2017), "Mashrû' tanzîm 66 khalf al-râzî.. tajruba râ`ida 'ala tarîq îâda alî'mâr - fîdîû", *SANA*, https://www.sana.sy/?p=683277). The two areas in Damascus are in its southern suburbs: the first, already started, included Mazzeh, residential area near the presidential palace, and Kafr Soussa. The area of the second zone included Mazzeh, Kafr Sousseh, Qanawat, Basateen, Daraya, and Qadam (Cham Press 2012, "Marsoum 66", http://www.champress.net/index.php?q=ar/Article/view/7769%8A).

[72] This urban renewal project was designed to replace the informal neighbourhoods of Mezzeh behind Razi, Dahadil, Nahr Aicheh, Louan and Qadam.

[73] Rollins, T. (2017), "Decree 66: The blueprint for al-Assad's reconstruction of Syria?", *IRIN News*, 20 April, https://www.irinnews.org/investigations/2017/04/20/decree-66-blueprint-al-assad%E2%80%99s-reconstruction-syria.

[74] Mroue, Bassem (2018), "Syria starts rebuilding even as more destruction wreaked", *ABC News,* http://abcnews.go.com/International/wireStory/syria-starts-rebuilding-destruction-wreaked-53354953

[75] MsSyriano (2010), "Helm Homs – al-mashârî' al-mustaqbalîya fî madîna homs al-sûrîya", *Youtube Video*. https://www.youtube.com/watch?v=Vxof2Ln_y30

[76] Law No. 10 was slightly amended through a later decree, Law No.42, by deputies in parliament in November 2018 following some criticisms on the international political scene but without changing its main dynamics. The time allocated to owners to claim in-kind rights that were not recorded in the real estate registry were for example extended to one year from one month previously (Al-Souria Net 2018, "Parliament Amends Law No. 10", *Syrian Observer*, http://syrianobserver.com/EN/News/35031/Parliament_Amends_Law_No/).

Qaboun were also scheduled to be studied at the beginning of 2019 for reconstruction under Law no. 10.[77]

This legislation was part of a larger process of a deepening neoliberal project in the country. In January 2016, the Public Private Partnership (PPP) Law was passed, six years after it had been drafted, authorizing the private sector to manage and develop state assets in all sectors of the economy except for oil. Economy and Foreign Trade Minister Humam al-Jazaeri declared that the law was "a legal framework for regulating relations between the public and private sectors and meets the growing economic and social needs in Syria, particularly in the field of reconstruction," while also providing "the private sector with the opportunity to contribute to economic development as a main and active partner".[78]

The new PPP law is likely to facilitate the further capturing of public assets by crony-capitalists on conditions widely favourable to them. Already prior to the war, PPPs were considered a key instrument to accelerate the mobilization of private capital, especially in the power sector.[79] This PPP law also has to be understood in the context of a more general deepening of regional neoliberal dynamics, especially in the Gulf monarchies in economic sectors previously managed solely by the public sector. The use of PPPs therefore opens new opportunities of capital accumulation for private actors.[80] In this framework, Prime Minister Khamis announced in September 2018 during a meeting with representatives of companies and businessmen participating in the Damascus International Fair that the government would likely open 50 infrastructure projects in the country to private investors under public private partnership.[81]

Reconstruction projects similarly follow a neoliberal dynamic. First, the government has reportedly awarded licenses to a number of well-connected Syrian investors since 2015 to collect and sell the scrap metal from cities and towns that experienced massive destruction through mostly regime air and artillery strikes.[82] Moreover, the private sector was given a leading role for the reconstruction plans. For example, in July 2015 the government approved a law that allowed the establishment of private sector holding companies to manage the public assets and services of city councils and other local administrative units, opening another avenue for regime cronies to generate business from public assets.[83]

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[77] Saleh (al-), Mahmoud (2018), "Surûr: 3500 manzil fî al-tadâmun sâlihat lil-sakan", *Al-Watan Online,* 12 November,http://www.alwatanonline.com/?p=90933&fbclid=IwAR39tmKPDGIS2Kinj6DN6LJtZbigRgrFaFQwSHTGwpPw-WSrmtHyj_Cy9LI; Watan (al-) online (2018), "Tâlabû bi-îlghâ'ihi wa tashkîl lajnat taqîîm jadîdat ta'mal bi-"nazâhat", 10 November, http://alwatan.sy/archives/168168.

[78] Sabbagh, Hazem (2016), "President al-Assad issues law on public-private partnership", *SANA*, 16 April, https://sana.sy/en/?p=66150

[79] The World Bank (2011), op. cit., pp. 22-24.

[80] Hanieh, Adam (2018), *Money, Markets, and Monarchies. The Gulf Cooperation Council and the Political Economy of the Contemporary Middle East*, Cambridge University Press, Cambridge, UK, pp. 202-217.

[81] Frieh (al-) M. (2018), "Khamis: Large infrastructure projects offered for partnership", *SANA,* 10 September, https://www.sana.sy/en/?p=146712.

[82] The Syria Report (2016), "Syrian Regime Seeking to Recycle Millions of Tons of Rubble", 30 June, http://www.syria-report.com/news/real-estate-construction/syrian-regime-seeking-recycle-millions-tons-rubble.

[83] SANA (2016), "Bi-râsmâl 60 milîyâr lîrat muhâfazat dimashq tatluq sharikat dimashq al-shâm al-qâbidat al-musâhamat al-mughfilat al-îdârat wa îstithmâr âmlâkihâ fî mintaqat mashru' tanzîm 66", 17 December, https://www.sana.sy/?p=481994.

These measures should not be understood the way they are presented by the regime, that is as necessary and "technocratic" ones aimed at overcoming the ravages of war and destructions. Rather, they are better understood as a means to transform and strengthen the general conditions of capital accumulation. As argued by academic Adam Hanieh, states often seize upon crises as moments of opportunity "to restructure and push forward change in ways that were previously foreclosed and significantly extend the reach of the market in a range of economic sectors that have hitherto been largely state dominated."[84]

New economic elites

Crony capitalists and new economic elites affiliated with the regime largely maintained or expanded their operations in the country throughout the course of the war. They benefitted from their connections to continue to earn high-margin government contracts and exclusive import deals while expanding their businesses to smuggling and other deals associated with the war economy. This contributed to their increasing willingness to support the regime; reciprocally their sustained support for the regime also allowed them further opportunities to improve their socio-economic status by affording them preferential access to industries and sectors that were abandoned when competitors fled Syria.[85] Sanctions did not improve this situation; rather they exacerbated this pattern.

Many business elites decided to leave Syria and transfer large sections of their capital outside of the country throughout the war. Researcher Samer Abboud calculated that total withdrawals from Syrian banks amounted to around $10 billion by the end of 2012. The majority of this money was reinvested in neighbouring countries. Some investors transferred their activities to Turkey, Jordan, Egypt, and the United Arab Emirates after the Syrian regime permitted them to move their equipment out.[86] The majority of this segment of the business elite who left the country were not connected with the new networks and opportunities provided by the war economy, and their old networks that had previously ensured their access to power in the past were now challenged or disappearing.[87]

Alongside crony-capitalists, new business elites were able to capture opportunities left by the gaps created from the departure of business elite networks that were very influential before the war. Elections in the Chambers of Commerce in Aleppo and Damascus at the end of 2014, for instance, saw a significant change in the membership of these chambers.[88] Already at the beginning of 2014 the Ministry of Industry had nominated new individuals to sit on the boards of various Chambers of Industry in Hama, Aleppo, Homs, and Damascus. This move was largely seen as a reprisal against investors who had supported the opposition or who were deemed not sufficiently

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[84] Hanieh (2018), op. cit., p. 201.
[85] Kattan, Rashad (2014), "Syria's business community decides", *Risk Advisory.* https://www.riskadvisory.com/news/syrias-business-community-decides/
[86] Mahmoud (al-) (2015), op. cit.
[87] Abboud, Samer (2013), "Syria's Business Elite Between Political Alignment and Hedging Their Bets", *Stiftung Wissenschaft und Politik (SWP) Comment*, p. 6.
[88] Yazigi, Jihad (2016), "No Going Back: why decentralisation is the future for Syria", *European Council on Foreign Relations*, https://www.ecfr.eu/page/-/ECFR185_-_NO_GOING_BACK_-_WHY_DECENTRALISATION_IS_THE_FUTURE_FOR_SYRIA.pdf, p. 4.

supportive of the regime. This mirrored the parliamentary "election" results in 2016, after which 70 percent of the chamber's members were new entrants, reflecting significant change in the powerbase of the Syrian regime.[89] The 2018 municipal elections also reflected the consolidation of the regime's power networks at the lowest level of society, with Baathists and regime affiliates winning the vast majority of municipalities. This was especially important as local councils would assume the official responsibility for reconstruction, albeit operating under the rules from the Ministry of Local Administration.

Similarly, outside the country a new lobby of Syrian businessmen—the Grouping of Syrian Businessmen in the World (GSBW)—was established in November 2018 in Bucharest, Romania. The GSBW convened investors, most of them Sunni entrepreneurs originally from Damascus and Aleppo, who are now located in more than 20 countries outside Syria and who have maintained connections with the Syrian regime. Khaldoun Al-Muwaqe', who has been heading the regime-friendly Grouping of Syrian Investors in Egypt (GSIE) since 2012, chaired this new body. Rateb Al-Shallah, a symbol of the traditional Damascene business class, was designated honorary president.[90] According to Syria Report, GSBW would likely aim to gain a share of the reconstruction business.[91]

Dependency on foreign actors and the competition for spoils

Damascus's political, military, and economic dependency on its allies in Tehran and Moscow increased considerably throughout the war. Reconstruction, which depends in part on foreign funding, is expected to benefit Iran and Russia as the states that most supported the Assad regime.

Russia's economic role in Syria increased progressively during the war. Already in October 2015 a Russian delegation visited Damascus and announced that Russian companies would lead Syria's post-war reconstruction. Deals worth at least €850m emerged from these negotiations.[92] New trade and market opportunities for Russian investors and companies have also opened up since 2015, notably in the sale of cereals and wheat, building and rehabilitation of electrical power plants, and heavy machinery to be used by the construction industry.[93] The most attractive opportunities for Russian companies were in Syria's oil and gas resources.[94]

Officials from Tehran were also looking to benefit from the spoils of war. The Iranian intervention in Syria has been very costly for its own economy, with Iran spending at least $30 billion by mid-2018 in military and economic aid, including the delivery of

[89] Sabbagh (2016), op. cit.
[90] The Syria Report (2018), "Syrian Investors Create New Lobby Group", 6 November, http://www.syria-report.com/news/economy/syrian-investors-create-new-lobby-group.
[91] Ibid.
[92] Hauer, Neil (2017), "To the Victors, the Ruins: the Challenges of Russia's Reconstruction in Syria," *Open Democracy*, 18 August, https://www.opendemocracy.net/od-russia/neil-hauer/to-victors-ruins-challenges-of-russia-s-reconstruction-in-syria.
[93] The Syria Report (2018), "Company Filings Confirm Improved Business Activity in 2017", 6 March, http://www.syria-report.com/news/economy/company-filings-confirm-improved-business-activity-2017.
[94] The Syria Report (2017), "Syrian Banks Unable to Finance Reconstruction", 21 July, http://www.syria-report.com/news/finance/syrian-banks-unable-finance-reconstruction.

crude oil, according to calculations by Mansour Farhang, a US-based scholar and former Iranian diplomat.[95]

Tehran assumed a dominant position in Syria's trade relations over the course of the war through credit and investment programmes. Throughout 2017 and 2018, Iranian companies have been awarded multiple contracts both by the central Syrian government and by the heads of governorates and municipalities to rehabilitate and reconstruct electricity infrastructure in different areas of the country. These deals will be worth hundreds of millions of dollars if finalised.[96] At the same time, numerous economic agreements and memoranda of understanding between the two countries were concluded over the past few years, but many of these deals have still not been implemented yet.

The prospect of reconstruction and access to natural resources presented some opportunities for Iranian and Russian actors, but also the potential for rivalry. However, this is unlikely to rise to the level of strategic disagreements between the two states. Both states continue to stress their strong cooperation and mutual interests in Syria at the time of writing.

The framework of Syria's reconstruction, but also private and public investment more generally, should be seen in the context of the economic interests and positioning of the regime's allies Russia and Iran and other possible foreign actors in the future. These dynamics should be seen as completely interlinked with the structure of the political economy of the region and not separate from it. The increasing interest of regional actors in the economic opportunities presented by reconstruction in Syria will have important political consequences. These dynamics must be analysed as they will influence Syria's political economy and its reconstruction plans.[97]

The participation of other foreign actors in the Syria's reconstruction was also linked to other regional and international dynamics, especially vis-à-vis Iran. In the past few months, a degree of political rapprochement has occurred between Syria and some Gulf monarchies,[98] particularly the UAE.[99] Moreover direct opposition to Bashar al-Assad's rule also appeared to diminish, even in Saudi Arabia. Among the many reasons behind this shift, rapprochement with Damascus by Saudi Arabia and the UAE was linked

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[95] Daragahi, Borzou (2018), "Iran Wants to Stay in Syria Forever", *Foreign Policy,* https://foreignpolicy.com/2018/06/01/iran-wants-to-stay-in-syria-forever/.

[96] Jazeera (al-) (2017), "Iran signs deal to repair Syria's power grid", 12 September, https://www.aljazeera.com/news/2017/09/iran-signs-deal-repair-syria-power-grid-170912162708749.html; SANA (2018), "Syria, Iran sign MoU on electricity cooperation", 12 September, https://www.sana.sy/en/?p=113707.

[97] See the debate in the literature regarding foreign funding: Heller, Sam (2017), "Don't Fund Syria's Reconstruction", *Foreign Affairs*, https://www.foreignaffairs.com/articles/syria/2017-10-04/dont-fund-syrias-reconstruction; Heydemann Steven (2017), "Syria Reconstruction and the Illusion of Leverage", *Atlantic Council*, http://www.atlanticcouncil.org/blogs/syriasource/syria-reconstruction-and-the-illusion-of-leverage; Yazigi, Jihad (2017), "Destruct to Reconstruct, How the Syrian Regime Capitalises on Property Destruction and Land Legislation", *Friedrich Ebert Stiftung,* http://library.fes.de/pdf-files/iez/13562.pdf; Delen, Broederlijk and Flanders Pax Christi, (2018), "Reconstruction Calling? Towards a different EU role in rebuilding Syria", *11.11.11*, https://www.11.be/item/syria-reconstruction-calling.

[98] With the exception of Oman, Gulf monarchies closed their missions in Syria few months after the outbreak of the uprising in mid March 2011.

[99] The UAE is notably seeking to normalize its relations with the Syrian regime by negotiating the reopening of its embassy in Syria and return of its ambassador to Damascus,

primarily to countering Iranian influence in Syria[100] and to a lesser extent countering the influence of Turkey, which is perceived as a close ally of Qatar. Future research could examine the political and economic consequences of possible reconciliation between these actors and its effect on reconstruction efforts.

Similarly, reconstruction efforts might differ from region to region according to the varying levels of influence and presence by foreign states in certain areas outside of the sovereignty of the Syrian state. One example is the "Euphrates Shield Areas" under Turkish domination where Turkish authorities invested significantly in governing institutions and economic infrastructure. More generally, a key question to assess is if Syria will witness parallel reconstruction efforts in areas controlled by or under the strong influence of different political actors such as the Syrian Government, the PYD, or Turkish-controlled Northern areas. Differences in reconstruction plans between and within regions may impact local sectarian and ethnic dynamics in a post-war Syria.

At the same time, the issue of refugees and the possibility of their return is also an important factor in reconstruction. Many neighbouring countries, such as Lebanon and Turkey, don't recognise most Syrians living there as refugees. In these countries there is growing domestic political pressure to forcefully return Syrians to Syria without security guarantees. So far, Syrian authorities are only taking in small flows of returnees. For many refugees, the Syrian state still presents a threat to their safety[101] or at the least it presents administrative obstacles to their returning to their original homes. Many refugees come from areas that have been completely destroyed.[102]

A massive return of refugees would be a major challenge for the regime, politically, economically, and in terms of infrastructure, particularly if many were to return within a short period. In addition to this, remittances sent by Syrians to their families inside the country became one of the most important sources of national income and therefore helped boost internal consumption. According to World Bank data, the value of Syrian expat remittances in 2016 reached about $1.62 billion—an average rate of about $4 million daily and representing a bit more than 10 percent of GDP.[103]

Alongside these issues, reconstruction plans also faced numerous other obstacles such as a lack of national funding, whether private or public,[104] and international sanctions preventing the participation of significant economic actors. However, historical examples such as those in Lebanon and Iraq have shown that even adequate levels of

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[100] Saudi Crown Prince Mohammad Bin Salman declared in March 2018 in an interview that Bashar al-Assad was staying, but he hoped he would not become a "puppet" for Tehran (Hennigan, W.J. (2018), "Saudi Crown Prince Says U.S. Troops Should Stay in Syria", *Time,* http://time.com/5222746/saudi-crown-prince-donald-trump-syria/,

[101] The U.N. refugee agency, UNHCR, has asserted since 2017 that it is not yet safe for refugees to return.

[102] Norwegian Refugee Council (2018), "Hundreds of thousands of Syrians risk being pushed to return in 2018 despite ongoing violence, warn aid agencies", https://www.nrc.no/news/2018/february/hundreds-of-thousands-of-syrians-risk-being-pushed-to-return-in-2018-despite-ongoing-violence-warn-aid-agencies.

[103] Damas Post (2018), "Value of Annual Remittances to Syria at $1.5 Billion*", in the Syrian Observer*, 1st March, https://syrianobserver.com/EN/news/21059/value_annual_remittances_syria_1_billion.html.

[104] The total assets of 14 private-sector commercial banks operating in the country reached SYP 1.7 trillion at the end of 2016, equivalent at the time to only around USD 3.5 billion. In terms of assets, some of the six state-owned banks were actually larger than their private sector counterparts, in particular the Commercial Bank of Syria. However, these banks had large bad debt portfolios. (The Syria Report (2017), "Syrian Banks Unable to Finance Reconstruction", op.cit.).

national or international funding might not guarantee an effective reconstruction process.

Conclusion

Much remains to be written about the impacts of the war in Syria. The resilience of the Syrian regime has indeed come at a very high cost, above all in terms of human lives and destruction, but also politically. In addition to the growing dependence on foreign states and actors, some features of the patrimonial regime were strengthened while its authority was diminished. Crony capitalists and heads of militias considerably increased their power while the clientelist, sectarian, and tribal features of the regime were reinforced, especially its Alawite identity. The war also allowed for the rise of new businessmen mostly linked to the regime, while the vast majority of Syrian businessmen in the diaspora at the time of writing remain hesitant about returning to invest in war conditions.

More generally, the Assad regime emerged from the war as an even more brutal, narrowly sectarian, patrimonial and militarized version of its former self. The popular uprising that turned into a war forced Damascus to reconfigure its popular basis, narrow its dependency on global authoritarian networks, adjust its modes of economic governance to deepen neoliberal policies, and reorganize its military and security apparatus.[105] Repression is continuing in regime areas, including for former opposition fighters and civilians who participated in the so called "reconciliation agreements," while reconstruction in itself can not be an incentive for the return of refugees. The return of refugees, especially those in neighbouring countries, depends first and foremost on guarantees of protection and security for their own safety and that of their property.

In this framework, the reconstruction plan of the Syrian government, which remains underdeveloped, will fortify and strengthen the patrimonial and despotic character of the regime and its networks, while being employed as a means to punish or discipline former rebellious populations. European States have to take into consideration these political dynamics when tackling the issue of reconstruction. While reconstruction is an absolute necessity, any possible participation European states might consider taking in this process should not be used to advance and consolidate the normalisation and re-legitimation of the Damascus' government while ignoring the rights of millions of Syrians within and outside the country.

Existing literature on the war and reconstruction in Syria has largely focused on the rise of a few new economic personalities,[106] but there is a need to look at the logics behind their rise in parallel to the fall of a wider circle of economic elites and their networks. The imbrications and relations between cadres of security services and militias and business networks have thus far received little scholarly attention. Other areas in need of further study include the relationship between the implementation of a new legal framework for economic relations, the faith of new economic elites in existing political

[105] See notably Heydemann, Steven (2018), "Beyond Fragility: Syria and the challenges of reconstruction in Fierce States", *Foreign Policy at Brookings*, https://www.brookings.edu/wp-content/uploads/2018/06/FP_20180626_beyond_fragility.pdf.

[106] These include Samer Foz, Husam Qaterji, Mazen Tarazi, and Wissam Qattan among others.

and legal frameworks at a moment of diminishing resources, and new patterns of wealth accumulation.

As mentioned in the text, the legal framework of reconstruction will most probably be used as means of consolidating old and new networks of power in Syria, but it could also contribute to changing the social and demographic structure in some areas. Further questions need to be addressed regarding the implementation of this new legal arsenal, its feasibility in economic terms, and its impact on demographic and social dynamics. Beyond this regulatory framework, the question remains as to which regions, economic sectors and categories of the population will benefit from—or be marginalised by—the government's so-called reconstruction policies. The role of foreign actors in the reconstruction plans and "stabilisation processes"—largely channelled through the funding of INGOs and local NGOs—also needs to be considered within this framework as they will also have vast consequences on the political economy of the country.

At the same time, the reconstruction process will force the Damascus regime to deal with a series of contradictions and challenges: on one side, it will need to satisfy the interests of crony capitalists and head of militias; on the other, the regime will need to keep for the state a role in the accumulation of capital through economic and political stability while granting its foreign allies major shares in the reconstruction business. These objectives were rarely overlapping at the time of writing and some contradictions and rivalries were already appearing. What remains to be mapped is how these contradictions might themselves be translated into opportunities for local and external actors.

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