Arab Reform Initiative

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The Political Economy of Syria: Deepening Pre-War Orientations

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A general view of pavilions at the Re-Build Syria Expo, at the Damascus Fairground, Syria, 17 September 2019. Some 390 companies from 31 Arab and foreign states participating in the fifth Re-Build Syria Expo organized by al-Basheq Institution for Expos in cooperation with the Public Works and Housing Ministry. © EPA-EFE/YOUSSEF BADAWI

Introduction

The Assad regime controls almost 70 percent of Syrian territory after more than 9 years of war thanks to the political, economic, and military assistance provided by its allies, Russia and Iran. Despite this support, the socioeconomic challenges and problems faced by Damascus are far from being overcome. The country's GDP declined from USD 60.2 billion in 2010 to around USD 21.6 billion in 2019, while reconstruction costs are estimated at around USD 500 billion. The Lebanese financial crisis since 2019 and the COVID-19 pandemic have further magnified the country's socio-economic problems, with the level of poverty estimated to have been over 85 percent even before COVID-19 erupted in Syria.

In light of this dire socioeconomic situation, the Syrian authorities have developed economic policies with the aim of consolidating their power and their various patronage networks, all while allowing new forms of capital accumulation. A central component of this strategy has been the promotion of a model of economic development that relies on Public Private Partnerships (PPPs) and the privatization of public goods as the basis for the country's reconstruction and economic regeneration.

The "war economy" model, put forward by various analysts to portray the current state in Syria, is often presented as a new paradigm that supposedly represents a rupture with and departure from the economic dynamics that existed in Syria before 2011. In fact, the conflict has exacerbated these prior economic dynamics. It has intensified the Syrian government's pre-war neoliberal policies and orientation while reinforcing the authoritarian and patrimonial aspects of the regime. The change that has occurred is in the networks of local and foreign actors that underpin and benefit from the system. Prior to the 2011 uprising, Saudi Arabia, Qatar, and Turkey were among the main actors benefiting from the economic opening of Syria, whereas today it is firstly Russia and, to a lesser extent, Iran.

The Syrian Government's Economic and

“Reconstruction” Strategy

In February 2016, the Syrian government announced “the National Partnership”, its new political economy strategy which replaced the previous "social market economy" established in 2005. The latter had already prioritized the liberalization of the economy and the accumulation of private capital. A central aspect of the new strategy is the law on “Public Private Partnerships (PPPs)” enacted in January 2016, six years after its drafting, which authorizes the private sector to manage and develop State assets in all sectors of the economy as a majority shareholder / owner, except for the extraction of the oil sector. Former Economy and Foreign Trade Minister Humam al-Jaza'eri declared that the law created 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, and to also help develop the public sector via the time-limited contractual relations with the private sector”, adding that “this law achieves an important thing for economic and social development, which is attracting more funding from the private sector to complement the State investments.”

However, the new PPP law will likely continue to tighten crony-capitalist control over public assets at the expense of State and public interests. Within the same framework, former Prime Minister Imad Khamis stated in a meeting with business representatives participating in the Damascus International Fair in September 2018 that the government would likely open 50 infrastructure projects to private investors in the form of PPPs. Furthermore, in a parliamentary session in October 2018, Fares Shehabi, former MP and head of the Aleppo Chamber of Industry, called for more PPPs in the public industrial sector in order to expand opportunities for private sector investments. This could pave the way for a new investment market allowing businessmen to invest in profitable industrial public sectors, while State industries in deficit would be gradually abandoned by the State. In addition to this, the Syrian government has sought to contract private investors under Build-Operate-Transfer (BOT) deals, or through the PPP law, for some State-owned food production companies.

This PPP law must also be understood in the context of a growing neo-liberal dynamic at the regional and global levels, during which economic sectors that were previously managed only by the State are now open to the possibility of capital accumulation by private actors. Various countries in the MENA region have, meanwhile, adopted PPP legislations to double-down on privatizations of public services and State urban infrastructure.[1]

Syria's foreign allies, in particular Russia and Iran, as well as businessmen affiliated to the regime, are now being offered numerous opportunities to invest and accumulate large profits on public assets.

The contract signed in 2019 with the Russian company Stroytransgaz for the management of the port of Tartous for a period of 49 years is a significant example of this process. The Syrian Minister of Transport explained that Stroytransgaz will invest some USD 500 million during the contract's period, in particular for the development and expansion of the port to allow for the berthing of larger ships. The Russian company has also signed two similar contracts in Syria in recent years:

- the development of the Khneifis phosphate mines, in the countryside of Hama, and
- the management of the fertilizer production complex located near Homs and operated by the General Fertilizers Company.

These contracts will now allow Stroytransgaz to oversee the entire phosphate production process, as well as the transport and export chain from the mines to the port.

In September 2019, the Syrian Petroleum Ministry also signed three contracts with Russian companies in the fields of exploration, drilling, and production in the oil and gas sectors in the central and eastern regions of Syria.

The Iranian State has not been awarded major contracts by the Syrian government, despite its massive assistance to the Syrian regime.[2] They were not able to translate their continuously growing geopolitical and military influence in the country's economy, especially as Russia's private investments have taken the upper hand in this field. Most of the contracts obtained by Tehran are connected to the Iranian credit line granted to Syria, such as the contract awarded to the MAPNA Group to build a EUR 400 million (USD 460 million) power plant in the coastal city of Latakia.

Syrian private actors close to the regime are also benefiting from these dynamics. In January 2020, Bashar al-Assad ratified laws granting three contracts to the Qaterji brothers,[3] thus giving them a strategic role in Syria's oil distribution sector. The Qaterji Group has obtained the right to establish two oil refineries and to expand an oil terminal in the port of Tartous. Refining had remained a State monopoly until then, although before 2011 the government was seeking to attract private investment in the sector. Previously, businessman Wassim Qattan, acting most probably as a frontman for Maher al-Assad, had benefitted from multiple governmental contracts to invest in hotels and malls.[4]

Likewise, in view of the reconstruction process, the government approved in July 2015 a law authorizing the creation of holding companies by municipal councils and other Local Administrative Units (LAUs) in order to manage public assets and services. In the fall of 2016, the “Damascus Cham Private Stock Company” was created with a capital of SYP 60 billion, or approximately USD 120 million at the time (based on the exchange rate in 2016) and was fully owned by the governorate of Damascus. This Holding is responsible for carrying out the reconstruction of the luxury real estate project Marota City and allocates contracts according to investments of private actors.

The regime does not seek only to gain politically and economically from reconstruction but also to solidify its perceived security. Since 2011, the Assad regime has enacted over nearly fifty laws “on housing, land, and property issues” that have allowed the State to ultimately raze areas formerly held by the opposition. The State has introduced laws and decrees to expropriate property and, therefore, benefit from real estate development. Notable in this regard is Decree number 66, which entered into force in September 2012. It allows the Damascus Governorate to expel inhabitants from two large areas in the capital, Basateen al-Razi in the Mazzeh District and Kafr Soussa, to develop a high-end real estate venture called Marota City.[5] A key element of Decree number 66 is the funding approach, which relies on the creation of public-private investment companies established by local authorities. The decree was inspired by some aspects of the 2007 Damascus Master Plan for housing that had not been implemented because of the beginning of the uprising in 2011. In April 2018, the Syrian government passed Decree number 10, which was modeled on Decree number 66 and expanded the implementation of such policies nationally.

In addition, in 2012, the government passed Decree number 63, empowering the Finance Ministry to seize assets and property from those who fell under Law number 19, a counterterrorism law passed that year. The law's impact was highlighted in November 2018, when the Finance Ministry documented over 30,000 property seizures in 2016 as a result of accusations of purported terrorist activities, and 40,000 seizures in 2017. Moreover, Law number 3 of 2018 gave the government significant leeway to define what should be identified as damaged property. This allowed neighborhoods to be closed off and demolished, preventing civilians from returning.

Obstacles to Recovery

The Syrian regime has had to deal with continuously increasing financial and economic challenges which have slowed its recovery efforts.

A large number of PPP projects and the (re)construction of luxury real estate projects in Syria by private Syrian actors have not yet been implemented or have been revised down. Most of them have remained for now mere announcements, demonstrating both the government's limited ability to implement these and the inherent limitations of its economic redevelopment plans. The Holding companies created by the governorates of Homs (2018), Aleppo (2019), and Damascus Province (2019) have, for example, failed to start any reconstruction process or operations since their creations.

The main reason for the failure to launch these projects is the lack of funding – be it public or private. At the end of 2019, private banks had total deposits of only SYP 1.134 billion (around USD 2.6 billion at the official rate of the Central Bank of Syria in December 2019 (SYP/USD 434). By way of comparison, in 2010, the figure had reached USD 13.8 billion. State banks, in particular the Commercial Bank of Syria (CBS), have more significant reserves, estimated in 2019 to be around SYP 3.207

billion (nearly USD 7.4 billion) , though they also have large bad debt portfolios.

Moreover, the government has been facing increasing funding challenges linked to the lack of foreign currency reserves and the continuous depreciation of the Syrian Pound. Since early 2020, the Syrian State has, for example, encountered problems when importing particular food commodities. This has led to several subsidized food commodities not being sold by the Syrian Trade Establishment despite the fact that some of these products are still present in the market through private importers who charge higher prices.

At the same time, it pursued austerity measures by decreasing the subsidies on certain essential products. In October 2020, the Syrian government doubled the price of fuel oil and increased the price of petrol by 80 percent. The price of fuel oil sold to commercial enterprises for example increased to SYP 650 per litre from SYP 296 per litre, while subsidized fuel oil reached SYP 450 Syrian, compared to SYP 250 previously. This decision will significantly increase prices across the economy and diminish both the competitiveness of Syrian manufacturers and the purchasing power of the population.

A second challenge is the instability and continuous depreciation of the national currency, notably since January 2020, which has deterred investment in the country. The incapacity of the Syrian government and the Central Bank of Syria to stabilize the Syrian Pound, despite repeated promises to do so, provokes fears among foreign investors concerning the prospect of exchange losses inflicted by currency depreciation.

At the same time, there are serious doubts about the successful implementation of economic projects between Syria and its allies, especially with regards to some reconstruction plans outlined in different memorandums of understanding concluded between the allies in recent years. For example, the Syrian government failed to secure the necessary funds for its contribution to electricity sector deals with Iran and Russia which led Iran and Russia to pull out.

The funding of reconstruction or other investments in infrastructure by foreign capital remains unclear and insufficient, particularly as Russia and Iran are themselves encountering their own deep economic problems while simultaneously maintaining high levels of financial and material support for the Syrian regime.

In addition to this, US and European Union sanctions against Syria constitute an obstacle that scares off foreign companies and investors.[6] Threats of falling under US sanctions are also putting off most multinational companies, especially with the recent promulgation by US President Donald Trump of the "Caesar Act of Syrian Civil Protection".[7] US pressure has also put the brakes on further rapprochement between some Arab regimes and Syria, and although relations with the United Arab Emirates have resumed, no investments has materialized in Syria so far.

The New Networks of Businessmen: Deepening Pre-2011 Economic Policies

The conflict has allowed the emergence of new economic actors, often linked to the security services, involved in various sectors of the war economy, and increasingly seeking quick and high returns on their investments. They act as smugglers, commercial intermediaries to import particular goods lacking in Syria, or front men for the regime’s influential personalities. These businessmen eventually invest in the formal economy, with some of them consolidating their power by occupying official positions in State institutions such as Parliament and the various Economic Chambers, including the Chambers of Commerce.

The economic and commercial interests of these new players often contrast with the possibility of revitalizing the productive sectors of the economy, particularly agriculture and manufacturing, which suffered massively from war and destruction. Trade, especially imports, has become a major source of lucrative commercial business in the country due to the very low economic output produced, the regime's lack of investment and investment incentives in productive sectors, and the need for specific products such as food, pharmaceuticals, and petroleum derivatives. Traders affiliated with the regime have formed monopolies in certain products from the import trade, while they also very often developed smuggling markets.

This is despite the fact that since the beginning of the uprising in March 2011, successive Syrian governments have announced various measures to curb the import of certain products and to refocus efforts on local production. However, these policies nurtured criticisms among some groups of traders threatened by the reduction of imports, who did not want to see their benefits diminish. Ultimately, the interests of traders prevailed and little was done by governments. Already in 2012, a decision to ban all imports that carried a tariff rate of more than 5 percent was quickly cancelled following an uproar among the local business community. In March 2019, with the support of a large group of traders and businessmen, Mohammed Hamsho was able to persuade the Prime Minister to cancel a government decree requiring importers to pay consular fees to the Ministry of Foreign Affairs and Emigrants (MFA) instead of to the customs secretaries of the Ministry of Finance. The MFA would have required importers to submit documents for the payment of the consular fee, namely an invoice and a certificate of origin authenticated by the Syrian embassy in the country exporting the products. This measure was a problem for most traders as a large majority import their goods to Syria from unknown sources or from a country not of origin, but across Lebanon and other Arab countries.

The emerging role of these new actors was accelerated by the Syrian government's decision to further loosen import restrictions which increased the outsourcing of responsibility for importing to the private sector. In March 2020, the government further relaxed restrictions for the importation of natural gas to allow more private sector actors to import fuel and diesel for three months, while it simultaneously allowed all importers, including private companies, to import flour, regardless of its origin. These measures, however, did not address the shortages of wheat and fuel because of various reasons, including sanctions, monopolies by traders, and corruption.

These measures have further nurtured frustrations among manufacturers, who have been calling for policies supporting the national production. For example, in September 2020, the Aleppo Chamber of Industry submitted a list of demands to the government with the aim of preserving the national manufacturing industry and supporting production. One of the most significant requests was to stop subsidizing all imports (instead concentrating only on essential products), which they considered to be a measure that exacerbated corruption, exploitation of price differences, and money smuggling. The Aleppo Chamber of Industry also argued that the processes to fund imports did not reduce prices in the market. These demands generally reiterated previous ones expressed by large manufacturers to the successive Syrian governments.

This political orientation – to favour consumption over investment in production – had already started in the early 2000s with the liberalization and privatization of the Syrian economy, but traders and new businessmen affiliated with the regime have considerably increased and deepened their domination over the Syrian economy in recent years. Therefore, the various political measures implemented by successive Syrian governments should not be considered as necessary and "technocratic" as presented by Damascus, but rather as a means to transform the general conditions of capital accumulation and empower economic networks linked to the regime. States all over the world have often seized crises as moments of opportunity to restructure and promote changes in ways that were once not envisaged in order to significantly expand the reach of the market in a wide range of economic sectors that had previously been largely dominated by the State.

Conclusion

The economic policy of the Syrian government is tied to the patrimonial nature of the Damascus regime and has evident consequences on the socio-economic and societal structures of the country. In recent years, this approach has fostered an overdevelopment of the trade and services sector and has fuelled various forms of speculative investment, especially in real estate, accompanied by a rentier management of resources (including non-natural resources) and corruption. All of this occurs while further weakening and under-developing productive sectors, further impoverishing large sectors of the society, and leading to massive rates of unemployment and underemployment, associated with extremely high rates of migration among young graduates.

This has led to increasing frustrations among the Syrian population, which have materialized through criticisms expressed on social media and small protests against the continuous deterioration of the country's economy and government's policies.

However, these signs of dissent and criticisms do not automatically transform into political opportunities, especially after more than nine years of a brutal war. They also remain highly rooted in specific local regions, with no connections whatsoever between each other. The absence of a structured, independent, democratic, and inclusive Syrian political opposition which could appeal to the popular classes makes it difficult for diverse segments of the population to unite and challenge the regime anew on a national scale.

In conclusion, while the regime's survival has been somewhat ensured, mainly as a result of the support of its foreign allies, maintaining a form of passive hegemony on large segments of the population is not. This has nurtured a situation of continuous instability, which will most probably be sustained in the near future.

Endnotes

1. In Saudi Arabia, for example, PPPs have become a fundamental element in the economic and political strategy of Vision 2030 promoted by Prince Mohammad Bin Salman. The 2020 National Transformation Program, which was presented after the 2030 Vision, details the economic policies of the new Saudi leadership team and places private capital at the centre of the future Saudi economy. The Saudi government stated its plans to conclude PPPs for many government services, including more traditional social sectors such as education, housing, and health. The Financial Times described the plans as "Saudi Thatcherism". Moreover, the European Bank for Reconstruction and Development (EBRD), which started its activities in the Arab region after the beginning of the popular uprisings in 2011, has clearly stated the promotion of infrastructure PPPs as one of its main objectives.

2. Teheran was, for example, expected to be granted a mobile phone license, the concession to manage the container terminal at the Latakia Port, and some shares in the phosphate mines. Teheran was not able to secure any of these.

3. Hussam Qaterji was a not-so-prominent trader before 2011. During the war, he acted as an intermediary for the oil and grain trade activity between the regime, on one side, and the "Islamic State" and the Syrian Democratic Forces, on the other side. He has since become one of the most important businessmen in the country and a member of parliament since 2016 for the governorate of Aleppo. He was re-elected in 2020.

4. Initially, one of the sources of Qattan's wealth was linked to illegitimate commercial activities that occurred during the siege of Eastern Ghouta prior the return of the domination of the Syrian regime

5. Decree number 66 stipulates that the original residents are to be compensated: They would be entitled to new housing built in an unspecified location and would receive the equivalent of annual rent until their new housing is completed, which is paid out of a special fund created by the Damascus governorate. Those who are not eligible would receive the equivalent of two years' rent, paid no later than one month after they receive an eviction notice. However, Decree number 66 does not specify under what conditions inhabitants are considered eligible for these new homes. In fact, over the years many residents in the area have complained about a lack of alternative housing, as well as the fact that they simply cannot find accommodation in other areas. In addition, alternative homes have still not been built for the original resident. On October 22 2020, the Public Housing Corporation announced a tender for the implementation of the structure and cladding works for the first two towers of the alternative housing project for Marota City residents, with a value of up to 20 billion SYP (around million at a rate of 2500 SYP/1$).

6. There are no UN sanctions on Syria itself as Russian and Chinese vetoes have prevented that. Sanctions have, however, been imposed unilaterally by many States opposed to the Syrian regime, including the United States and the 28 member States of the European Union as well as Japan, Canada, Australia, Switzerland, Norway, and Turkey. The 22 countries of the League of Arab States have also sanctioned Syria.

7. The Caesar bill allows the US president to punish any government or private entity that is supposed to help the Syrian government and groups and entities related to it, or to help rebuild Syria, in addition to any assistance provided to the governments of Russia and Iran in Syria. The US president can also sanction any international company or individual that invests in the energy, aviation, construction, or engineering sectors in Syria, as well as anyone who lends funds to the Syrian government (Section 102). The Caesar law enforcement began on June 17, 2020.

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