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Surpassing the War Economy in Syria; the Different Scenarios at Hand

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The Asfari Institute for Civil Society and Citizenship is a regional hub of a dynamic community of academics, practitioners, policymakers, activists, and members of the general public interested in exploring traditional and innovative forms of collective actions. locally-grounded policy debates and in advancing realistic solutions to the obstacles to effective civil society and citizenship in the Arab world. In doing so, the Institute provides training workshops and programs beside regular teaching at AUB, encourages and provides evidence-based research in areas related to political participation, accountability and good governance, produces policy/ practice recommendations to improve citizens' engagement and civil society roles in mediation, deliberation and selforganization.

It also promotes public awareness of civil society and civic engagement best practices in the region through its monthly meetings and seminars and stimulates fruitful dialogue among the region's varied publics through its programmatic activities of workshops, conferences, blog and publications.

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#### **Bridging Academia and Activism**



#### **About The Project**

#### THE LAY OF THE LAND:

A Social Mapping of Daily Practices in Informality amongst Syrian Displaced Communities in Lebanon

Funded by the Ford Foundation

This research project examines how, in the face of conflict and crisis, Syrian displaced individuals and communities in Lebanon are attempting to (re) organize themselves within the informal sector to secure access to essential services. We understand informality as a sector of goods and services that is outside of, but not necessarily disconnected from the formal purview of the state. In Lebanon, most citizens are already accessing resources such as water and electricity from within the informal sector. Whereas access to such services might ideally be seen as indissolubly linked to the rights of citizens, the distribution of such goods in Lebanon is hardly equal in practice. The access to goods and services by displaced populations is consequently further compounded in such a context where, by the nature of the country's political economy, must also acquire and secure their rights through informal networks.

By addressing this question of informalization and displacement, we reflect on practices of exclusion as experienced amongst Syrian displaced communities from different socio-economic backgrounds who are otherwise perceived as non-citizens in Lebanon. We aim to document through qualitative methods and life history approaches some of the ways Syrian communities have attempted to harness basic livelihood necessities. In so doing, we examine how the Syrian crisis is contributing to the reassembling of these networks, their hierarchies, and ultimately reshaping modes of governance and state borders between Syria, Lebanon and among Syrians themselves.

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#### **Abstract**

As the Assad regime was accumulating new military victories and capturing new territories with the assistance of foreign allies, it started to envision the issue of reconstruction and establish the conditions for stabilizing territories under its control. This meant going beyond a war economy structure, which in turn means arising numerous challenges and various scenarios. At the same time, Syria witnessed during the war significant territorial fragmentation as a result of the loss of state's sovereignty in different areas of the country. This led to the establishment of "multiple war economies" with various local and foreign actors involved in its dynamics. The development of these multiple war economic profoundly impacted the stratification and formation of the economic networks and elite in particular. Similar patterns and dynamics of war economy in armed opposition-held areas and areas under regime control could be found such as informality, smuggling, violence and illegal activities, emergence of new centers of power.

The paper, however, concentrates on dynamics relating to the regime's war economy. This paper tackles the challenges facing the regime in the prospect of working towards an economic strategy surpassing the war economy. Finally, the article addresses various possibilities to surpass war economy in general or provide sufficient employment to compensate for the economic importance taken by violent and illegal activities during the war; it was important to analyze these elements as they were generally linked to the reconstruction process.

#### Introduction

By summer 2018, the Syrian regime with the help of its allies, especially Iran and Russia, controlled more than 60 percent of the territory and nearly 75 percent of the population. The international and regional actors had now in their quasi totality accepted Assad's remaining in power.

As the Assad regime was accumulating new military victories and capturing new territories with the assistance of its foreign allies, it started to envision the issue of reconstruction and establish the conditions for stabilizing territories under its control. This meant going beyond a war economy structure, which in turn means arising numerous challenges and various scenarios.

This paper will tackle the challenges facing the regime in the prospect of working towards an economic strategy surpassing the war economy. Scholar David Keen describes war economy as the "continuation of economics by other means". Authors Karen Ballentine and Heiko Nitzschke, meanwhile, define its distinctive features, particularly in civil wars that opposed governments against rebels. These features include the "destruction or circumvention of the formal economy and the growth of informal and black markets", as well as "pillage, predation, extortion, and deliberate violence against civilians is used by combatants to acquire control over lucrative assets . . . and exploit labour". In addition, "war economies are highly decentralized", and fighters "thrive on cross-border trading networks", the authors add (cited in Al-Mahmoud 2015).

In this regard however, the informal economy, or at least large sector of it, is not necessarily a particular and distinctive element of a war economy. Informal economy is generally an important constituent in the economies of periphery countries. Prior to the uprising, the informal sector was indeed a significant contributor to the Syrian economy. Estimates in the 10th five-year

plan show that the sector would contribute by about 30 percent to employment and about 30-40 percent to GDP(ILO 2010: 3)1. Nevertheless, as the share of the informal economy was on the rise, so was the intensity of illegal and violent activities, reaching 80 percent, according to certain estimates (Syria Needs Analysis Project 2013: 6).

Similarly, illegal smuggling of goods had long existed in Syria and the Assad regime's cronies were its main beneficiaries in the 1980s, as many goods during this period were not allowed into Syria. The subsequent liberalization of trade at the beginning of the 1990s caused the smuggling activities to decrease in some business sectors, and they took a steeper hike down after Bashar al-Assad came to power in 2000 and initiated a new round of neoliberal reforms. Moreover, the 2003 US invasion of Iraq ended the direct involvement of Syria in various smuggling activities, especially oil. However, other illegal trafficking and smuggling activities appeared in this period, and the Syrian government was not able in most of the cases to control or curb new rising illicit trafficking. In the early 2000s, drug trafficking, for example, surged in the country driven by new products and new routes, while in Iraq, as trans-border smuggling recovered and intensified in the following years after the invasion, the Syrian government reverted rather to taxing trafficking networks than controlling or dominating them (Herbert 2014: 73-74)

It is also important to bring to mind that Syria witnessed during the war significant territorial fragmentation as a result of the loss of state's sovereignty in different areas of the country. This situation led to the establishment of "multiple war economies" with various local and foreign actors involved in their dynamics. The emergence of the multitude of war economies profoundly had an impact on the stratification and formation of the economic

<sup>1</sup> In 2010, according to a report of the Syrian Center for Policy Studies (2010: 174), the informal sector was concentrated in internal trade, restaurants, hotels, construction, real estate, agriculture, and manufacturing, while the formal labor was mostly based in the services and industrial sectors and, to a lesser degree, in storage and telecommunications. The majority of the formal labor was registered in the public sector.

networks and elite in particular. Similar patterns and dynamics of war economy could be found in armed opposition held-areas and areas under regime control; they include informality, smuggling, violence and illegal

activities, and emergence of new centers of power.

The paper here will be concentrating on dynamics related to the regime's war economy.

This paper will tackle the challenges facing the regime in the prospect of working towards an economic strategy surpassing the war economy.

## Rise and benefits from the war economy

The Syrian Center for Policy Research (SCPR) explained that armed groups and security services

"tried to directly recruit people to be part of their armed battalion, or indirectly through "organizing" illegal activities like smuggling, monopoly, theft, pillage, weapons trade, and people trafficking.

These illegal activities attracted around 17 percent of the active population inside Syria in 2014" (SCPR 2016: 37)

Such situations contributed the development of "war commanders" and of the emergence of a "new guard" of nouveaux riche businesspersons who accumulated enormous wealth throughout the years. In order to launder their money, war traders employed a number of methods, the most important of which are buying and trading real estate, luxury cars, gold, land plots, and currency. This led to the emergence of new centers of power in which the regime was still the epicenter, creating entanglement between the new guard of businessmen and the army and security (Hamidi 2016). By accumulating substantial profit and gaining enormous power, they 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 becoming integrated into the formal economy as they were establishing formal companies and registering them as limited liabilities, or participating in investment projects. For example, Bassam al-Hasan, the Republican Guards officer who participated in the creation of the National Defense Forces (NDF), and his nephew, Saqr Rustom, who led the Homs branch of the NDF, established a company named Damas Real Estate Development and Investment LLC, in order to invest

in real estate projects (The Syria Report 2018b). In Hama, after Russia expressed willingness to dissolve regime's militias and force them to join the Fifth Corps (see below), various militia leaders began to transfer and invest money they had accumulated in various trafficking networks, kidnappings and armed robbery into the formal economy, including real estate, land and businesses, controlling increasing economic activities of the city. Heads of militias and high personalities of security services increasingly turned into significant businessmen, controlling more than 65 percent of shops and real estate in Hama and its countryside, according to one activist from the city (Shahdawi 2018).

Similarly, in regions suffering sieges in opposition-held areas where food, water, electricity, and fuel were cut off from locals, members of the Syrian Arab Army (SAA) and militants from allied militias were exploiting the situation. The pro-regime armed forces had erected checkpoints at strategic entry points in besieged area, which provided them with ample opportunities for many illegal economic practices such as allowing goods in exchange for bribes (Todman 2016: 4+8). Some traders and businessmen who lived or worked in the besieged areas before the conflict and who often had local connections with regime security forces, also

benefited from this situation. They tried to secure contracts from the top personnel from the regime in order to gain an effective monopoly over the supply of certain goods in besieged areas. These traders also had to have a relationship with the opposition-armed groups operating there and to pay them in cash or goods in order to pass the checkpoints. Once these goods were inside the besieged area, the traders often hid or stored them and sold them strategically to maximize their profit (Todman 2016: 4).

For example, Muhy al-Din al-Manfush (known as Abu Ayman) became one of the most prominent merchant smugglers in Damascus province. Abu Ayman was a trader from the city of Mesraba near Douma and continued to manage a dairy farm there. He provided food and fuel, relying on personal relations with regime officials, to get his supplies through the Harasta checkpoint (northeast of Damascus city). He would then deliver the products to customers in the city, charging prices up to 20 times higher than the rates in Damascus. He used some of the funds to try to win over the local residents, for instance by paying salaries for teachers and administrators in several areas of Ghouta: the regime benefited as well by taking a cut of his profits and maintaining networks of influence in opposition-held areas. Al-Manfush protected his facility using a private militia. Around 1,500 people worked at his factory, which also supplied Damascus with cheese and dairy products. Al-Manfush was able to develop his facilities to produce canned and baked goods sold in Ghouta and Damascus (Sadaki 2016). Moreover, his local area of Mesraba was not among the targets of the regime's military attacks, seemingly part of the arrangement. A resident of eastern Ghouta estimated that before the tunnels came into regular use, Al-Manfush made a daily profit of at least USD10,000 (Todman 2016: 5-8).

Aleppo is home to another example - Hussam Qaterji, a trader who was little known before the beginning of the uprising, operated as a middleman for the trade of oil and cereals between the regime and the Democratic Union Party (PYD) and the Islamic State (IS) (Yazigi 2016c: 4). Qaterji and traders working for him bought up wheat from Ragga and Deir el Zor and gave IS 20 percent. He was rewarded by the regime through his "election" as a member of parliament representing the Aleppo Governorate. Qaterji was also trying to increasingly formalize his business ventures by establishing two limited liabilities together with his brother, officially in agricultural trade and economic consultancies, which were fronts for their various business activities (El-Dahan and Georgy 2017; Khaddour 2017d: 12). He was part of a new business class filling the gap of the traditional or former bourgeoisie of the city that had left during the war and used their contacts with the regime to become prominent economic actors.

Similarly, Samer Foz2, who became during the war one of the country's most powerful businessmen, benefited massively from government contracts and acted as a broker for grain deals with the state purchasing company, Hoboob (Saul 2013; Enab Baladi 2017f), while he was able to act as an intermediary with the PYD and the IS to trade wheat.

More generally, crony capitalists and elites affiliated with the regime largely maintained and expanded their operations in the country. Their sustained support allowed them opportunities to improve their socio-economic status by affording them preferential access to industries and sectors that were abandoned when competitors fled Syria (Kattan 2014). Sanctions did not change the situation. After Western powers imposed sanctions on Syria's oil sector early in the war, Aymen Jaber for example became the only importer

<sup>&</sup>lt;sup>2</sup> He was the son of a former Sunni member of the Ba'th party in Latakia during the 1970s, and his father was very close to Hafez al-Assad (Eqtissad 2017). Multiple Syrian and Dubai-based businessmen interviewed by the Financial Times stated that Mr Foz had close ties to the Assad regime. Prior to the uprising in 2011, he owned the Aman Group, a contractor for real estate developments and food commodities. According to their website, the Group had "strategic relations with an extensive network of suppliers in over 30 countries" (Aman Group 2017).

of oil products in the country (Younes 2016)3. The crony capitalists have generally benefited from their connections with the regime to earn high-margin government contracts, exclusive import deals, and since 2011, to smuggle goods and seal deals associated with the war economy.

Trade, or more specifically the import sector, has notably become a major source of lucrative business deals in the country because of the very low levels of economic production, the absence of regime investments, and the need for specific goods like foods, pharmaceuticals and oil derivatives (SCPR 2015: 29). A Syrian pro-regime publication, called Sahibat al-Jalala, actually 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 already a few weeks before indicated that two importers controlled 20 percent of all import trade, two others controlled 10 and 5 percent respectively and the last two controlled 3 percent each (Salam 2016).

## Trade, or more specifically the import sector, has notably become a major source of lucrative business deals in the country

<sup>3</sup> With fiscal revenues declining and foreign currency reserves largely spent, the government was also being forced to lift gradually its long-held monopoly over the oil sector and call the private sector for help. In December 2014, the Syrian government actually offered investors the possibility of importing crude oil, refining it at one of the two refineries in Homs or Banyas, and reselling it either in the local or export market. The government would collect a fee for the processing, which could be paid in kind, in the form of the oil derivatives produced. A few weeks before this decision, it had already allowed private traders to import oil derivatives, only restricting their sale to manufacturers (The Syria Report 2014c).

## Challenges to surpassing war economy

The consolidation of the regime's power over large territories did not mean the end of the war or a situation of post- war conflict at the time of the writing. However, under analysis could already be the numerous challenges facing attempts surpass the war economy in the country in order to put an end to the "illegal and violent activities" mentioned above that attracted a section of the labor

force. Such work could also reinvigorate human and financial resources in productive sectors that would boost employment in the manufacturing and agricultural sectors while diminishing the need for import.

#### Human and economic cost

More than seven years after a popular uprising transformed into a murderous war, with major regional and international actors intervening in the country, the situation in Syria is catastrophic at all levels, especially in terms of human loss. An estimated 2.3 million people, approximately 11.5 percent of the population within Syria, were killed, injured or maimed as a result of the armed conflict in 2015 (SCPR 2015: 51).

More than half of the population of Syria was displaced internally or outside of the country, or forced to leave their homes as a result of the war. By the end of 2015, 85.2 percent of Syrian people lived in poverty (SCPR 2016a: 37+ 45-46), while 69 percent of the population was estimated to be still living in extreme poverty at the end of 2017 (2017 Humanitarian Needs Overview: Syrian Arab Republic).

The Syrian economy across the country suffered as a result of the numerous and large destructions that rocked several areas. The GDP dwindled from USD60.2 billion in 2010 to USD12.4 billion, according to the Central Bureau of Statistics (cited in The Syria Report 2018a). 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, with each becoming a growing share of a shrinking productive base (SCPR 2014: 4). The share of employment of the public sector represented around 55 percent in 2014, indicating that the majority of formally employed persons were working in the government sector (SCPR 2015: 34). These sectors remained significant throughout the uprising, with agriculture still accounting by end of 2016 for between 26 and 36 percent of GDP and was an important safety net for 7.6 million Syrians, including IDPs (Enab Baladi 2018a; The Syria Report 2018a). However, the significant share of the agricultural and public sectors in the GDP was not the result of net growth within these sectors. Rather, this was a consequence of the massive destruction that occurred in other sectors. These sectors contracted in real terms by more than 40 percent (Butter 2015: 13). In 2016, the World Food Program stated that the losses of the agricultural sector in Syria amounted to USD16 billion since 2011 (Enab Baladi 2018a).

The most severely affected sector was mining (including oil production), which observed a diminution of 94 percent in real terms since 2010. Manufacturing, domestic trade and construction also saw a decrease of more than 70 percent on average (Butter 2015: 13).

Moreover, the closure of many workplaces since the beginning of the uprising in March 2011 has led to massive job losses; between 2010 and 2015, the economy lost 2.1 million actual and potential jobs. In 2015, unemployment reached 55 percent, and youth unemployment increased from 69 percent in 2013 to 78 percent (ESCWA and University of St Andrews 2016: 28).

Meanwhile, at the end of 2017, businessmen in various Syrian industries were complaining of a lack of manpower despite the country's massive unemployment rate as a result mainly of the huge outflow of working-age skilled, and less skilled individuals (dead, injured arrested, in exiles, etc...) and the lack of mobility of Syrians because of insecurity. Similarly, few months before, in April 2017, a report by the FAO and the World Food Program cited a shortage in farming laborers as a challenge faced by the Syrian agricultural sector (The Syria Report 2017b).

The regime's resources, reserves and financial revenues dropped considerably through the years and in response, the government engaged in new austerity measures and diminution of subventions on essential products, worsening the life conditions of the country's popular classes.

## Lack of national funding to invest in the economy

The government lacked national funding to invest in productive sectors to boost employment and therefore provide work opportunities for former militiamen to become active economically outside the war economy. Syria's national currency reserves dwindled from USD20 billion at end-2010 to USD0.7 billion by the end of 2015 (World Bank 2016). In 2014, the regime's public debt measured against GDP reached 147 percent, including 76 percent in domestic debt and 71 percent in foreign debt, while in comparison the total debt measured against GDP was estimated at 23 percent in 2010. In November 2016, Syria's public debt had multiplied by 11, Adib Mayaleh, the Minister of Economy declared, without providing a specific number (The Syria Report 2016b). The government also became increasingly dependent on Central Bank advance payments, in addition to foreign assistance, which have been increasing during the war because of the very limited financial income base. Financial revenues dropped from 23 percent of GDP in 2010 to less than 3 percent of GDP in 2015. In 2015, at least a third of the government expenses were funded by long-term borrowing from the Central Bank of Syria (The Syria Report 2016a; World Bank 2017: VII).

Oil revenues, which accounted for a large portion of revenues until 2012 (nearly 10 percent of the GDP), were non-existent, while tax revenues had declined considerably. Indirect tax revenues constituted actually 70 percent of the government's financial revenues in

mid 2018, which indicated the lack of national revenue (Enab Baladi 2018c). The national budget for 2017 was SYP2.6 trillion (USD5 billion) and increased slightly in 2018 to SYP3.1 trillion (SANA 2017). In the 2019 budget, the reconstruction was not allocated more than SYP50 billion, equivalent to USD115 million (W. Haddad 2018).

The country, therefore, needed foreign funding, notably for the reconstruction process estimated at nearly USD400 billion. However, at the time of the writing, the sum remained largely insufficient, particularly as Russia and Iran were running out of capital to help in the immediate future and showing signs of increasing socio-economic problems.

The participation of other foreign actors in Syria's reconstruction was particularly also linked to other regional and international files and negotiations. A number of sources claim that some European countries were ready to participate in the reconstruction process if Gulf monarchies were to make the first steps, while Saudi Arabia would have pledged to rebuild Syria if

Damascus definitively severed its relations with Hezbollah and Iran (Ajoury 2018). In the past few months, some political rapprochement was also noticed with some Gulf monarchies, including the UAE and Bahrain.

## The economic strategy of the regime

The endeavors aimed at strengthening the productive sectors of the economy in order to facilitate the surpassing of the war economy, faced several challenges, including the lack of internal and external funding, as well as the economic strategy of the regime. Investments in capital-heavy infrastructure projects such as education, health and industry are rarely made by private actors who expect rapid return in terms of benefits. The industrial sector provides significant added value and is potentially a major employer of qualified individuals, which will also decrease the number of skilled workers fleeing the country.

However, in January 2016, the regime adopted the Public-Private Partnership (PPP) Law authorizing the private sector to manage and develop state assets in all sectors of the economy, except for oil. 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 probably

set up 50 infrastructure projects in the country for private investors under PPP (Al-Frieh 2018b). However, the private sector in Syria either lacked the financial resources or was not willing to play a leading role in the productive sectors of the economy, as it rather generally preferred investments in the real estate and service sectors to bring up rapid benefits and profits.

Moreover, there were funding issues as PPP schemes relied on banks for financing, which was clearly unavailable as the total assets of 14 private-sector commercial banks operating in the country reached SYP1.7 trillion at the end of 2016, equivalent at the time to around USD3.5 billion – in 2010 they reached USD13.8 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 2017a).

The private sector in Syria either lacked the financial resources or was not willing to play a leading role in the productive sectors of the economy

## The issue of stabilization of the regime & centralization of power

The capacities of the regime to stabilize the situation in the areas it controlled and to put an end to or least control the various militias, whose grievances against them had increasingly become public and outspoken, were an important challenge at the time of the writing. In the past few years, the regime militias have been involved in various criminal activities such as robbery, looting, murder, infighting, and especially checkpoint extortion, resulting in higher prices and further humanitarian suffering, as well as creating apprehension about recreating a favorable business environment.

a private "tourism security" company which would "offer services to protect tourist groups and those who wish to take advance of its service," including Syrians returning from abroad, businessmen and journalists. Their tasks also included protecting properties, including hotels operated by Syria's Tourism Ministry (Now 2016). Some of the former militiamen joined these private security military companies.

From the beginning 2018, some militias were disbanded, mostly because their financial patrons stopped funding them, and sections of militiamen decided to join the army (Zaman al-Wasl 2018). By mid-end 2018, some

pro-regime militias saw their contracts ended as the

regime accumulated victories and controlled large areas

of the country. For example, Suheil al-Hassan's militia

"Tiger Force" cancelled the contracts of several thousand

individuals in sub-units serving under its command in

owned by businessmen close to Assad's inner circle,

according to journalist Nour Samaha (2016). In August

2016, the Syrian regime approved the establishment of

The importance and power of the various militias increased considerably throughout the war, as number of members is estimated to be between 100,000 and 150,000 members (Barnard, Saad and Schmitt 2015; Balanche 2016). There were several intertwined reasons for this situation. The first is the weakness and deterioration of the SAA as mentioned previously. Second is the degradation of the fiscal position of the regime, which was lacking needed revenue and funds to fight the war. Then, the high level of unemployment and the higher cost of living encouraged many youths to get involved with pro-regime militias, especially when the salary, added with the bribes, of a militiaman could be four times higher than a university teacher (All4Syria 2017). Fighting with one of the numerous private militias was often the best-paying job available for men, also militias also offered the possibility for fighters to remain in their region and provided amnesty to the regime's many draft dodgers (Hayek and Roche 2016). Moreover, unlike soldiers in the army, pro-regime militiamen were often allowed and even encouraged to loot houses when attacking opposition-held areas (Reuters Staff 2013).

September 2018, while the regime dissolved the "Ba'th Commandos" militias in Homs (Enab Baladi 2018d). By mid-2018, as the regime was consolidating its power, it took several measures to try to discipline for example some crony capitalists with militias taking too much autonomy, without putting an end to their activities. The regime actually had to discipline a faction of militias in 2016 and 2017 for stepping out of bounds on several incidents, notably clashing with other militias in the streets of Lattakia, including one commanded by Munzer al-Assad, the cousin of Bashar (Samaha 2017; Ahmed al-Ali 2016). Following new violent incidents in February 2017 involving Ibrahim Jaber the brother of Muhammad and Ayman and a high-level official in the regime, Bashar ordered the withdrawal of 900 soldiers of the regime 's forces serving in the militias of Jaber's brothers (Enab Baladi 2017a) and the subsequent

inclusion of his militias in the army's Fifth corps. In June

2018, Syrian security services stormed the offices of Jaber in Lattakia, while a judicial order froze his assets

and his family's.

This process of privatizing militias was also applied to the economic field when the regime relinquished its role in protecting commercial facilities and convoys, leaving it to investors to establish their own security companies to protect their facilities and businesses. In August 2013, a legislative decree allowed private security companies to protect and guard services under the supervision of the Ministry of Interior (Zaman al-Wasl 2013; al-Mahmoud 2015). Many private security companies were

These disciplinary measures against actors enjoying too much autonomy showed the willingness of Damascus to remain the sole Syrian decision maker among other actors on the ground.

There were also attempts by the regime, pressured by Russia, to try to integrate some of the militias, such as the National Defense Forces (NDF), in the army, notably through the establishment of the Fourth Corps in autumn of 2015. This ended up in a failure as most of the militias continued to act more or less autonomously and did not merge with the army; still, the regime's army was able to have some level of control on auxiliary groups in Lattakia and Hama (al-Masry 2017).

In November 2016, the regime announced the establishment of the Fifth Assault Corps, its first official volunteer-based military force aimed at "fighting terrorism", and which would be deployed alongside other army units and foreign allied forces. Russia was the main driving force behind the creation of this unit by managing and funding it. The populations targeted initially for recruitment were civilians who were not already drafted for military service, army deserters and government workers. The Fifth Corps provided recruits a monthly salary and case settlement for those who had previously deserted their military posts. Volunteers with government jobs were offered yearlong contracts and continued to receive their government salaries and benefits, in addition to their Fifth Corps salary. These conditions were particularly enticing for large sections of Syrian youth who were facing high unemployment rates and rising inflation (al-Masry 2017). The Fifth Corps was also used to increasingly integrate into its ranks some fighters involved in pro-regime militias, such as the NDF, and former opposition armed groups that had reached an agreement with the regime. In mid

2018, this unit comprised around tens of thousands of troops, including pro-regime conscripts, members of volunteer militias created by the regime, and Russians, together with members of former opposition armed factions that signed agreements with Russia (Semenov 2017; Oudat 2018). However, despite attempts to dissolve or integrate some militias in institutions linked to the army, their influence remained important in vast areas of the country.

The Syrian government also tried to cancel levies extorted by regime checkpoints following growing protests from traders and transporters alike, reflecting the exasperation of the population in various areas under the control of the regime since 2017; however, up until today, these endeavors have been largely unsuccessful. Lawless and violent pro-regime militias are still causing insecurity and hoarding money through different ways in various regime-held territories.

There were significant challenges to curve the power of militias on a national scale. The main challenge was that militias' chiefs were generally linked to the powerful security service agencies and high military officials, preventing municipal and city officials from acting against them without the support of top-level decision makers.

This was only the beginning of a long battle to discipline and put an end in the midterm to the militias in the country numbering between 100,000 and 150,000 soldiers in 2017, including local militias such as NDF and those controlled by Iran. As one Syrian official argued in 2013, foreseeing the problem,

"After this crisis, there will be a 1,000 more crises — the militia leaders. Two years ago they went from nobody to somebody with guns and power. How can we tell these shabiha<sup>4</sup> to go back to being a nobody again?" (Baker 2017)

The pro-regime militias and the NDF, although they respected to some extent Assad's regime authority, introduced forms of fragmentations at the local level and some of these groups often engaged in violent inter-militia rivalries for control of territory and resources (Balanche 2018: XV).

The power enjoyed by these militias was important and the heads of these groups were acting in near total impunity in the country. They had powerful patrons in the country's ruling family and among its allies, and the profits from stolen property and bribes collected at checkpoints tended to trickle upwards, which made it dangerous for local officials to interfere in their affairs. The regime also depended on these militias to manage its security challenges. Thus, instead of trying to confront the problem, Assad's regime responded by censoring criticism, using various means such as arresting journalists sympathetic with the regime (Lund 2017).

<sup>&</sup>lt;sup>4</sup> A vague term meaning approximately pro-Assad thugs. Very early after the beginning of the uprising the shabiha phenomenon expanded rapidly, the regime started to use money and services to buy the allegiance of unemployed youth, and to distribute guns, cars, and security clearances to trusted loyalists and their families, essentially weaponizing the vast web of client networks constructed over four decades of Assad family rule. Journalist Arun Lund (2015b) described how "Recruits included army families, Baathist true believers, intelligence-backed goon squads, religious minority communities, certain Sunni Arab tribes, and other local interests that either depended on the Assad regime or feared a takeover by the Sunni Arab-dominated rebellion".

## Crony Capitalists as rapacious capitalists

The militias were certainly one of the biggest challenges for the regime in restoring "stability" and going beyond a war economy, but they were not the only deterrent to the reconstruction of the country's economy. The crony capitalists, empowered throughout the war, were also impeding the possibility of enabling the return of sections of the bourgeoisie to re-invest in the country and therefore create employment, by their willingness to dominate the economy and investment opportunities. The regime's military victories and increasing re-control over large Syrian territories encouraged Damascus to try to bring back investors and businessmen who had left the country because of the war. Damascus' motivations were based on attracting investment and increasing business activity, while manufacturers reduced the need for imports, a crucial aspect as foreign currencies

were very rare. This was especially important as the private sector was given the leading role in restoring the economy.

Crony capitalists did not hesitate to criticize some government measures trying to bring back Syrian businessmen in the country. Signs of resistance among personalities of the regime could be seen towards businessmen who had left the country or who had not sufficiently supported the regime during the past years. For example, the governor of the Central Bank, Duriad Dergham, declared in July 2018 that he would provide loans only to those who stood by the Syrian regime (Enab Baladi 2018b).

Crony capitalists did not hesitate to criticize some government measures trying to bring back Syrian businessmen in the country.

## Conclusion: What are the possible scenarios for the future?

The possible end of the war in the near future does not mean the end of the war economy as we have seen. The integration of pro-regime militias and some former opposition brigades in the army or the creation of private security military companies, would not be enough as a solution to provide sufficient employment for individuals involved in the different armed groups. Moreover, absent or lacking were various elements to expect a surpassing of the war economy in general or provide sufficient employment to compensate for the economic blows caused by violent and illegal activities during the war.

The state and the public sector should have a key and leading role in investing in the economy, and more particularly in the productive sectors, to provide employment to former militiamen and persons seeking work to encourage alternatives to opportunities in the war economy. As mentioned in the text, only the state can make investments in capital-heavy infrastructure projects, education, and health as well as spending on safety nets. The state has the capacity and the means to manage the massive financial and human efforts that will be required to rebuild the economy. This means the development of policies in contradiction with the current and past ones before the uprising that reduced the socio-economic role of the state. Prior to the conflict, economic growth was chiefly rent-based and dependent on oil export revenues, geopolitical rents and capital inflows, including remittances. The share of productive sectors decreased from 48.1 percent of the GDP in 1992 to 40.6 percent in 2010 (Marzoug 2013: 40), while the share of wages from the national income was less than 33 percent in 2008-2009, compared to nearly 40.5 percent in 2004, meaning that profits and rents commanded more than 67 percent of the GDP (Marzouq 2011).

Foreign investments are also a significant aspect as this is an element lacking today, notably for the reconstruction process estimated to cost nearly USD400

billion. The financial assistance and investments provided by Russia and Iran are not enough, while China's promises in terms of investments do not go beyond USD2 billion. The investments and participation of other foreign actors was linked to other regional and international files and negotiations and could move fast5. However, most of these investments would not be in productive sectors of the economy, but rather in real estate (through reconstruction) and services. Economic dynamics in Syria, including foreign investments, should be comprehended as fully connected with the structure of the region's political economy and not detached from it.

The failure to go beyond a war economy would result in the lack of work opportunities, especially for skilled labor forces, which in turn has dire social consequences. In this perspective, less or no incentive would be the case for people involved in militias and illegal activities, such as smuggling and other types of black market trades, in order to put them to an end; however, reality is quite the opposite. This sector would most probably continue under other forms with the participation of pro-regime actors benefitting from these various activities and trafficking, but also smaller-scale networks of trade that flourished during the war.

These elements were more generally linked to the reconstruction process and foreign investments. The reconstruction issue is most probably the main projects through which the regime and crony capitalists linked to it would 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. As mentioned in the text, however, reconstruction plans and foreign investments faced numerous obstacles, in addition to the international sanctions on the country preventing currently the participation of significant actors. However, enough national funding or massive inflow of foreign funding might not ensure an operative and efficient

reconstruction process as demonstrated in previous historical examples (Lebanon and Iraq).

Similarly, reconstruction plans could also vary from one area to another depending on the level states influence and presence in certain areas, including those outside the sovereignty of the regime.

The issue of refugees and the plausibility of their return was also a significant one in the framework of reconstructions efforts. Despite official statements of regime's representatives calling for their return and growing pressures in neighboring countries to push Syrians to go back, Syrian authorities are still only taking in small flows of them. Refugees are still confronted by serious security considerations and administrative obstructions from Damascus, which stand against their return to their initial homes, while most of

them originate from areas that have suffered large destructions. A massive return of refugees would be a major challenge for the regime (politically, economy, and in terms of infrastructure) to cope with. In addition, remittances transmitted by Syrians to their families inside the country became one of the most significant sources of revenues and have become a major booster for internal consumption. According to World Bank data, Syrian expats remittances in 2016 reached about USD1.62 billion – representing slightly more than 10 percent of the GDP (Damas Post 2018).

All these dynamics must be under scrutiny, as they will shape the political economy of the country, and therefore the war economy, which might probably continue to sustain on the shortand mid-term, although most probably in different forms.

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