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## The Syrian Business Elite: Patronage Networks and War Economy

A socially responsible economic strategy is central to the Syrian transition. The fact that the Syrian opposition has not yet embarked in a critical debate of Syria's future political economy has jeopardized their legitimacy and deprived the Syrian business elite of a chance to reconsider their own practices and contribute to Syria's transition towards a better future.

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The Syrian business community is split between small and big business; domestic and expatriate endeavors; supporters and opponents of the regime. Expectations that it would play a determinant role in Syria's political transition from authoritarian rule have been so far frustrated. To understand the businessmen's political alignments and influence on current Syrian politics, the historical relation between the regime and business circles must be contextualized alongside the economic dynamics of the Syrian conflict, including the emergence of new economic actors in the thriving war economy.

#### 1. The Asad regime cooptation of the Syrian business elite

The merchant class that dominated Syria's politics in the 1950s was marginalized by the socialist Ba'th in the 1960. Starting in 1970, Hafez al Asad partially and selectively rehabilitated Syrian capitalism as part of his *infithah* (open door) policies in a bid to stimulate the stagnant economy. Hafez co-opted part of the urban Sunni business community, who became partners in public sector ventures and infrastructural projects that benefited from the 1973 oil boom. New deregulation measures taken in the mid-1980s and in the early 1990s brought investments mainly in service complexes in the tertiary sector. Hafez's policies gave birth to a new commercial bourgeoisie, whose economic operations were based on back-door, semi-legal or illegal deals with state officials<sup>1</sup>. The early set of *infithah* reforms favored the commercial bourgeoisie as distinct from the industrial elite, and ensured the continuation of lucrative smuggling activities that enriched wealthy merchants and corrupt state officials with vested interests in the survival of the regime<sup>2</sup>.

Until the mid-1980s, state-business relations remained largely informal apart from the notorious troika of business tycoons (Sa'ib Nahhas, 'Uthman al-'A'idy and 'Abdur-Rahman al-'Attar) who were allowed to launch the first large-scale private business ventures. By the 1990s, business representatives became members of Parliament, the Chambers of Industry and Commerce and the Guidance Committee (since 1981 the official link between the state and the private sector). Nevertheless, the regime's preoccupation with its own decisional autonomy ensured that Syrian capitalists were never able to transform their growing economic power into political

influence. State institutions merely served as channels for decisions taken by the regime. Lack of representation meant that business actors remained sectorally, politically and geographically fragmented and ultimately unable to act collectively.

The networks that the regime forged with elite business actors paid dividends in times of crisis. Badr ad-Din ash-Shallah, then president of the Damascus Chamber of Commerce, assured the loyalty of big business to Hafez al-Asad in 1982, when the regime violently crushed an uprising in Hama, killing at least 15,000 residents.

#### 2. Bashar's network of patronage

With Bashar's succession in 2000, the Syrian regime openly opted for inclusion in the international market without touching the existing power structure, which had made the Syrian regime resilient for thirty years. Bashar's uneven economic liberalization - pursued without introducing the necessary institutional and legal bases for a market economy to effectively function - paved the way for a new group of entrepreneurs closely associated with the Asad family to enrich themselves from privileged entries into markets such as communication, information technology, car dealerships and the free market zones that were liberalized in 2003<sup>3</sup>. Public assets were de facto transferred into the hands of crony capitalists, privileged networks and corporations linked with the Asads by family and clan ties, while small business and the agricultural sector - the backbones of the Syrian economy - were neglected<sup>4</sup>.

The regime officials and their progeny (*awlad as-sulta* or 'sons of the powerful') who dominated the Syrian economy under Bashar, together with members of his extended family, included the son of Mustafa Tlass (defense minister during 1972- 2004), the son of 'Abdul-Halim Khaddam (vice president, 1984-2005), the son of Bahjat Suleiman (head of the internal security forces in the General Intelligence Directorate, 1999-2005), the sons of 'Ali Duba (former head of the Military Intelligence), the Shalish (cousins of the president), the al-Hasan, the Shawkat, the Najib and the Hamsho - to name a few. The symbol of this new generation of 'regime businessmen' who built their fortunes by illegal means, corruption and money laundering, is Rami Makhluף, the president's maternal cousin. Makhluף has a virtual monopoly over mobile phone services, duty free markets, and various restaurant chains. He holds more than 300 licenses as agent for big international companies and important shares in Cham Capital, Syria's largest holding. Makhluף is also involved in real estate, banking and free trade zones<sup>5</sup>. Unofficial sources reported that Makhluף made \$20 million in 2001 from his monopoly of free trade zones and telecommunication business.

This 'integrated' business elite formed an organic part of the regime - its economic backbone - with unchecked influence over the law and the state<sup>6</sup>. A second group of middle class businessmen, who are a product of the *infithah*, profited from the new consumerism and joint ventures projects for export with European groups such as Benetton, Adidas, and Carrefour. Syrian industrialists also benefited from regime protection in order to launch and run their enterprises (to obtain licensing, land property, electricity supply etc.). The mafia-like alliance of pro-regime capitalists and bureaucrats has wrought unprecedented exploitation and disempowerment of small and medium industrial entrepreneurs, who formed the vast majority of Syrian enterprise and had to struggle to remain active in this exclusionary and corrupt business environment<sup>7</sup>. The regime's promotion of import-led growth dealt a blow to national industry, but it was the mafia-zation of the Syrian economic system after 2005 that built up Syrian industrialists' resentment at the predatory behavior of the *awlad as-sulta*, and the *ramrame* (Rami-zation) rather than *khaskhase* (privatization) of the economy.

The inextricable connection between crony capitalists and the political elite made them highly invested in the survival of the regime. It is within this context that one can assess how much the business community's political preferences have changed since the start of the Syrian uprising.

#### 3. Business actors and the Syrian uprising

At the onset of the Syrian uprising, 70% of the Syrian economy was controlled by the private sector. Early expectations that big business could shift side, paralyze the economy and spell an end to the regime were soon frustrated. In May 2011, the participation of business figures in one of the earliest opposition conferences, which was funded by two businessmen - 'Ali and Wasim Sanqar (luxury car dealers in Damascus) - who had been personally 'burned' by the regime's preferential treatment of Rami Makhluף<sup>8</sup>, was hailed as "a significant development"<sup>9</sup>. But it was mainly expatriate businessmen - not dependent on the Syrian market or regime continuity - who publicly aligned themselves with the opposition.

Regime's cronies, whose fortune and fate was bound up with that of the regime, stood firmly by their patrons ostensibly accepting the official narrative that the unrest would soon end. They financed the regime's orchestrated mass rallies and public relations campaigns<sup>10</sup>. The majority of Syrian entrepreneurs chose a wait-and-see attitude to the uprising, either to show their support for the regime, or to protect their assets expecting that the regime would soon be able to restore stability. The few businessmen who sided with the opposition saw their properties in Syria confiscated and spurious legal charges brought against them in newly-established 'counter-terrorism' courts<sup>11</sup>.

As the 'crisis' turned into a costly armed conflict, the government cut spending and came to rely more heavily on the business elite. Regime cronies contributed to funding and even set up militias such as the al-Bustan, funded by Rami Makhluף, which includes some 11,000 fighters from Tartus and Latakia. Other pro-regime businessmen who allegedly continue to support armed groups include Ayman Jaber (an oil tycoon, investor in Cham Capital and partner in the pro-regime Addounia TV), who finances the Desert Falcons (*Suqur as-Sahra'*) and Sea Commandos (*Fawj Maghawir al-Bahr*) that helped the army to recapture Palmyra from the Islamic State (IS), and George Haswani (owner of the HESCO company involved in oil trade from IS-controlled fields), who finances the Qalamun Shield (*Dir' al-Qalamun*), a group of 2,000 militants active in proximity of the Lebanese border<sup>12</sup>.

Businessmen active in regime-controlled areas, regardless of their political preferences and the shrinking of their business due to the deteriorating economic and security environment, had to comply with the regime's request of financial support in the war effort<sup>13</sup>. Some big business families such as the Shallah and the Ghreiwati (sole agent for several international car companies), left Syria for Beirut and Dubai. They do not support the opposition directly, although Omar ash-Shallah was allegedly part of an unsuccessful initiative to mediate between the regime and the opposition<sup>14</sup>.

The majority of businessmen who run enterprises in regime-controlled areas were critical of the regime but did not support the opposition. Big business in Syria is mainly located in the Damascus and Aleppo provinces (and, secondarily, in Homs, Latakia and Hama). The fact that these areas are under regime control - and the looting of some Aleppo factories when they were under rebel control - explains why there have been no significant defections from the ranks of big business<sup>15</sup>. Squeezed between distrust of the regime and growing disbelief in the opposition ability to defeat it, many Syrian businessmen strived to project an image of neutrality in order to protect their activities after the conflict, regardless of the nature of political authority that will emerge.

When the crisis dragged on longer than expected, private sector actors started withdrawing their assets and moved their production to neighboring countries: more than one thousand Syrian firms have relocated to Turkey alone, with others in Egypt and the Gulf<sup>16</sup>. Most of them have not openly aligned with the opposition; the main exiled opposition organization - the Syrian National Coalition - has attracted financial support mainly from the diaspora<sup>17</sup> but not from domestic business circles or recent expatriates, who remain unwilling to embrace a political alignment that might jeopardize their access to wealth after the conflict<sup>18</sup>.

The Islamization of the uprising and the rise of IS in 2013 marked a turning point in the conflict and in Syrian businessmen's political attitude. Fearing the imposition of Islamist rule in Syria, a majority of businessmen, including those who were sympathetic with the uprising in its early days, switched back to support the regime as the lesser evil<sup>19</sup>.

#### 4. Wartime economic restructuring and the reshuffling of economic networks

The conflict has been a disaster for the vast majority of Syrian entrepreneurs: it has forced them to exile, to relocate from war-plundered provinces, such as Aleppo, to the coastal cities of Latakia and Tartus with the encouragement of the regime - a move that Syrian activists decried as a plot to "lure national industries into the regime's Alawite enclave"<sup>20</sup> - or to shut down their businesses. Many of these entrepreneurs may not return after the end of the conflict. The practice of confiscating private property to cover the state budget deficit or punish opposition figures might also have an enduring impact on the restructuring of the business elite.

The demands of the war economy have created a whole new set of opportunities for warring parties and criminal groups who are exploiting the conflict to their financial benefit through systematic looting, artifact thefts, and the seizure of Syria's oil fields<sup>21</sup>. Trafficking in fuel, guns, and people - and some residual agriculture - has become the dominant form of economic activity throughout much of Syria.

The conflict has reshuffled the cards for business actors in many ways. Smuggling networks that traditionally were linked to the Syrian regime have now emerged as autonomous actors. The war has allowed new cohorts of wheeler-dealers to emerge: these include new networks of crony businessmen exploiting wartime opportunities by filling the gaps created by the departure of competitors, or engaging in activities that the regime considers critical to its survival, including the smuggling of weapons, goods and people. A new category of mediators has appeared, who pay royalties to gunmen for facilitating the transfer of goods between areas controlled by different warring parties. For example wheat, which is overpaid by the regime, is smuggled from rebel territories to regime-controlled areas to the benefit of local growers and a whole chain of middlemen<sup>22</sup>. Extreme poverty in besieged areas and lack of financial services in rebel territories have made civilians dependent on money transfers from abroad or financial assistance from humanitarian organizations. Both civilians and NGOs rely on *hawala* (transfer) money traders, whose business is booming<sup>23</sup>. Thirteen humanitarian agencies surveyed by the consulting firm Beechwood International estimated that \$16 million was transferred in cash into Syria in 2014 alone.

Over the last three years, this new economic elite in-the-making has expanded the scope of its activities and forged connections with a range of political actors, including illicit entrepreneurs in North Africa and Europe. The 'siege enterprise' supplying essential goods to besieged civilians involves the upper echelons of the Asad regime, who give permission to purchase goods from businessmen, traders who deliver the goods to checkpoints, army and rebel fighters who levy fees and manage the goods distribution to civilians - all while benefiting from the illicit trade<sup>24</sup>.

War traders who collaborate with warlords linked with the regime and its cronies in transport, distribution and smuggling activities have vested interests in the continuation of the war and its conditions of illegality after the official cessation of hostilities. At the same time, they are increasingly exploiting bottlenecks in the local economy to emancipate themselves from Damascus' tutelage<sup>25</sup>. Moreover, the tacit relationship or 'complex interdependency' between warring forces, both loyalists and rebels, and entrepreneurs who are compelled to collaborate in the thriving war economy makes it difficult to assess how much such groups will still be dependent on wielders of political power in a future Syria<sup>26</sup>.

#### 5. Conclusion

It is difficult to highlight the nuances of Syrian business elite policies during the uprising, given the covert and ambiguous nature of their political support. Whatever strategy they have adopted - supporting one side, ostensive neutrality or wait-and-see - Syrian entrepreneurs appear prepared to favor a political outcome that ensures they can continue to access wealth in a future Syria<sup>27</sup>.

Most Syrian businessmen have remained entrenched in their previous political strategies; the 'networks of privilege' including the crony core and the diffused practices of corruption and compliance, continue to pay political dividends<sup>28</sup>. With the escalation of the conflict, the most important determinants of businessmen's stance have remained their proximity to the center of regime power and their perception of politics as a provider of stability - in line with the established Syrian political economy. Beyond the core of regime cronies, whose fate is inextricably linked with regime survival, political quietism rather than loyalty has kept Syrian businessmen waiting for and preparing themselves to adapt to a possible dramatic shift in power - whatever its political color. In their bid to protect their interests, they have followed events, rather than lead them<sup>29</sup>.

With the escalation of the conflict, the shrinking business opportunities, and the rise of anti-Western Islamic extremism threatening their interests, even Syrian businessmen who were once sympathetic with the uprising have distanced themselves from both regime and opposition. Eventually many have taken the pragmatic choice to turn back to the regime as the likely provider of the minimum of stability that is necessary for their business activities.

Over the last five years, the war has reordered economic relationships and it is laying the basis of a broad transformation of the country's socioeconomic structure. We must grapple with the reality that the conflict has become an economic enterprise funded by internal and external sources, and in the future we might see the consolidation of wartime economic orders.

The Syrian economic system before 2011 was a crony capitalist predatory economy: smuggling networks, crony monopolies, illegal capital movements and distorted competition were prominent features of the state-business relation. The war economy has made these practices ubiquitous, exploitative and violent; it has marginalized some groups and helped new cohort of cronies, smugglers, mediators and warlords to emerge and thrive in the conflict stalemate.

Business elites affiliated with the regime's core have even expanded their operations by getting preferential access to industries and sectors that were abandoned when competitors fled Syria<sup>30</sup>. The regime has also transnationalized its cooptation in parallel with its internationalization of the Syrian crisis by reaching out to new partners not targeted by the sanctions who may become the post-conflict reconstructing elite<sup>31</sup>.

The increasingly 'complex interdependency' and autonomous power of crony capitalists, smuggling networks and warlords promise to complicate the transition to peace. If Asad succeeds in maintaining a major role in post-war Syria, crony figures will appear as Asad's heroes and will grab lucrative reconstruction contracts in partnership with Russian, Chinese and Iranian companies<sup>32</sup>. It is nevertheless unlikely that Asad will be able to sustain and 'harmonize' the various actors and interests - at times already competing among themselves - that have emerged out of the war economic system<sup>33</sup>.

The return to Syria of diaspora philanthropists and Syrian magnates, who are now involved in humanitarian support (such as Ayman Asfari and Ghassan 'Abbud), would surely lend legitimacy to the reconstruction process<sup>34</sup>. Their influence on Syria's future is linked with the demise of the Asad regime. A number of Syrian tycoons who are ostensibly waiting the end of the war to make their return have hitherto avoided taking a clear political position. They will bring fresh capital, know-how and international links to the Syrian economy, but little guarantee that the political system will change to the advantage of the polarized, impoverished, and now brutalized Syrian society. Indeed, further economic liberalization without political reform could entice local warlords to strengthen and legitimize their positions when the conflict ends.

A socially responsible economic strategy is central to the Syrian transition. The fact that the Syrian opposition has not yet embarked in a critical debate of Syria's future political economy has jeopardized their legitimacy and deprived the Syrian business elite of a chance to reconsider their own practices and contribute to Syria's transition towards a better future.

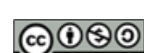
Erratum: The original version stated that Ammar al-Qurabi, one of the funders of the May 2011 opposition conference, has been the chairman of Orient TV, but he has never covered this position.

[Main picture: Bank Al-Sharq (Banque Libano-Française Group) and the Blue Tower Hotel in Damascus, Syria - 26-5-2010 (Monis Bukhari, Photographer gallery: monisbukhari.com/CC BY 2.0 via Wikimedia Commons)].

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