Militias and Crony Capitalism to Hamper Syria Reconstruction

Syria

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For the first time since 2011, the Damascus International Trade Fair was organized and held for ten days in mid-August 2017 in a bid to bring back foreign investors and promote an image of normalcy in the country. Many companies from Russia, Iran, China, Iraq, India, South Africa, and Lebanon participated among representatives of more than 40 countries. Despite the small economic impact of the Fair and a mortar attack which resulted in several deaths and confirmed the fragility of the security situation, the regime's message through the organization of Trade Fair to local, regional and international actors was clear: Asad is here to stay and this is the beginning of the Syria's reconstruction period.

This is the culmination of the focus of the major international and regional state actors on the "war on terror", and consensus around Bashar Al-Asad remaining in power, both of which have strengthened the confidence of the dictator and the ruling class in Damascus.

However, there remain several challenges for the regime in reaching political and economic stability and securing funds for reconstruction. Some of these challenges are rooted in the internal contradictions and the nature of the regime as a patrimonial state and its need to satisfy divergent interests of actors who played an important role in supporting it, especially militias and crony capitalists.

Lack of National and Foreign Investments

Reconstruction is a main project of the regime and crony capitalists, linked with a plan to consolidate their political and economic power, while rewarding foreign allies for their assistance with a share of the market. Reconstruction will also reinforce the neo-liberal policies of the deeply indebted regime as it lacks the capacity to fund the reconstruction.

In early January 2017, following its victory in Eastern Aleppo, Damascus was planning to impose throughout the country Decree 66 [1], a law enacted in 2012 which had already dispossessed many Damascus residents of their properties. The decree expropriated the residents of two large informal regions on the southern edge of Damascus âEuros" the first in the Mezzeh district and the other in a large area going from Qadam to Daraya - and compensated them by distributing shares in the developments that were programed to be built instead. According to Syria Report editor Jihad Yazigi, "whenever there have been these expropriation projects in Syria, compensation has been extremely low. It's a very clear dispossession of these people. [...] This is a transfer of public assets, tax-free, to private companies âEuros" and it will be a big boost to regime cronies. [2]."

This plan will provide 12,000 housing units for an estimated 60,000 residents. There will be schools and restaurants, places of worship, even a multi-story car park and a shopping mall. [3]. Officials in Damascus justified this decree by claiming that the objective was to enhance the quality of the housing and that other areas would follow to improve informal housing conditions throughout the country. [4]

Another case was in the city of Homs, when the municipality in September 2015 approved the plan for the reconstruction of the Baba Amro neighborhood. In March 2017, the municipality established its own holding company to handle real estate project. [5] The plan for reconstruction included 465 plots, mainly for residential housing, in addition to public spaces and services, such as schools and hospitals. Similarly, accusations were leveled at the
possible demographic consequences.

By allowing the destruction and expropriation of large areas, Decree 66 can be used as an efficient instrument for rapid and large development projects that will benefit regime cronies, while at the same time operating as a punitive force against populations opposed to the regime. The development of the residential projects would be carried by holding companies owned by governorates or municipalities, but the construction and management of the projects would be contracted to private sector companies owned by well-connected investors. The implementation of this law in Syria would serve a number of objectives, including a means to pressure populations living outside regime control by threatening to expropriate their properties in their absence; as a source of enrichment for crony capitalists linked to the regime; and as a carrot to attract capital from various countries that wish to profit from Syria's reconstruction drive. [6]

The Aman Group, owned by rising business figure Samer Foz with close relations to the regime, announced in August 2017 its contribution to the reconstruction of Basateen Al-Razi area, in the Mazzeh district of Damascus, in partnership with Damascus Governorate and its Damascus Cham Private Joint Stock Company. Aman Damascus, established by Aman group for this project, announced a capital of USD 18.9 million, but there were no details on the respective shares of the partners. Before the deal with the Aman Group, Damascus Cham had established a similar joint-venture with Zubaidi and Qalei LLC owned by Khaled Al-Zubaidi and Nader Qalei, two powerful Damascene businessmen with connections to the regime and whose company Castle Investment was awarded in 2017 a long-term contract to manage the Ebla Hotel, in the outskirts of Damascus, a five-star resort with a conference center [7].

The fact that Samer Foz and Nader Qalei are Sunnis has not prevented them from having very close links to the regime, showing once again the multiple strategies and tools of the regime to constitute a diverse popular basis through clientelism, tribalism and sectarianism.

Similarly to Homs and various suburbs of Damascus, Aleppo and other areas could see the imposition of similar projects. In Aleppo, more than 50 percent of the buildings and infrastructure have been partially or totally destroyed, according to a preliminary assessment of the municipality in January 2017 [8].

Meanwhile large sections of Aleppo's eastern neighborhoods have been forcefully displaced to other areas or left as a result of the war.

Some inhabitants of Eastern Aleppo have started to come back, but until now remain a minority. Indeed, it was estimated that more than 440,000 internally displaced people have returned to their homes in Syria during the first six months of 2017. In parallel, UNHCR has monitored over 31,000 Syrian refugees coming back from neighboring countries so far in 2017. This is a very small amount considering that more than 5 million refugees have fled Syria, and there are another 7.6 million internally displaced Syrians. The Syrian population has shrunk by an estimated 20 percent. [9]

The investments of private actors are however insufficient to rebuild the country. In April 2017, the cost of reconstruction was estimated at $350 billion [10]. In addition, there are problems of funding, as Public-Private Partnership (PPP) schemes largely rely on financing from banks, which is clearly unavailable as the total assets of 14 private-sector commercial banks operating in the country reached SYP 1.7 trillion at the end of 2016, equivalent to only around USD 3.5 billion (based on the end of the year market exchange rate). In 2010 they reached USD 13.8 billion. In terms of assets, some of the six state-owned banks are actually larger than their private sector counterparts, in particular the Commercial Bank of Syria. However, these banks have large bad debt portfolios. [11]
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The reconstruction therefore needs massive foreign funding, which would probably benefit the countries that most supported the Assad regime, particularly Iran and Russia. In February 2017, the Syrian Minister of Economy, Adib Mayaleh, declared that companies from Iran and other allied countries will be rewarded while European and American companies will first need to have their governments apologize before benefitting. [12]. Following the recapture of Eastern Aleppo, Aleppo Governor Hossein Diyab also stressed that Iran was going to “play an important role in reconstruction efforts in Syria, especially Aleppo”. The Iranian Reconstruction Authority publicized in March 2017 the renovation of 55 schools across the Aleppo province. [13] Iran also had the largest presence at the International Trade Fair in Damascus with more than 40 Iranian companies participating. [14].

Meanwhile in October 2015, a Russian delegation visited Damascus and announced that Russian companies would lead Syria's postwar reconstruction. Deals worth at least â–850m emerged from these negotiations. A Russian parliamentary visit to Syria in November 2016 resulted in Syrian Foreign Minister Walid Muallem reportedly offering Russia firms priority in rebuilding Syria. [15]

The Chinese government, in early August of this year, hosted the "First Trade Fair on Syrian Reconstruction Projects," during which a Chinese-Arab business group announced a $2 billion commitment from the government for the construction of industrial parks in Syria. [16]

Nonetheless, the level of destruction raises questions if Iranian, Russian and even Chinese capital would be enough. The current absence of main actors such as Western states and Gulf monarchies as willing to invest in Syria poses a series of problems.

However, the issue of reconstruction is also connected to the capacities of the regime to provide stability in the regions under its control and a business environment favorable to investments. This is endangered by two main elements: militias and crony capitalists.

Militias, Spreading Chaos

Grievances against militias have increasingly become public and outspoken in regime-held areas throughout the country for a while now. Militiamen 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.

Criticisms have become increasingly vocal in different areas, especially in the Syrian coast, where residents have repeatedly expressed anger at the silence of local police and security forces toward the rise in crimes, kidnapping and looting by pro-regime militias. [17]

This anger has spread to other areas as well. In September 2016, the local population in regime-controlled areas of western Aleppo city expressed frustrations against government officials due to an increase in the looting of homes by loyalist shabiha groups after residents evacuated the area. Militiamen also looted hundreds of factories and workshops in Ramouseh industrial neighborhood in Aleppo. Fares Al-Shehabi, a member of parliament and head of Aleppo's Chamber of Industrialists, even complained about the incident on his Facebook page.

The pro-regime Imam of Aleppo's Al-Abara Mosque mentioned the matter during a Friday sermon, explaining that trading stolen products was banned under Islamic law. In reaction, Ibrahim Ismael, a shabiha commander, stated that he considered the stolen items as "war prizes" for people who defended Aleppo. [18].
In May 2017, the Syrian government was trying to cancel levies extorted by regime checkpoints following growing protests from merchants and transporters alike reflecting the exasperation of the population in various areas. Businessmen in Aleppo were increasingly critical of these levies, and lorry drivers outside the city of Sweida closed the motorway linked to Damascus for two hours in protest at the “fees” imposed by the various checkpoints along the road. In mid-May, Zeid Ali Saleh, the head of the Military and Security Committee in Aleppo which groups all regime security branches and militias in the city, finally issued an order forbidding the levying of “fees” by regime checkpoints on lorries transporting goods within and outside the city. [19]. Several days later, the Damascus Chamber of Industry also demanded a similar ban in the capital. [20].

At the same time, in response to this growing unrest, Prime Minister Imad Khamis declared that he would ban these practices, but there was ongoing resistance from militias. This situation reflects the fact that as the war is ending in large sections of the country, the justification for these checkpoints is increasingly less valid.

In mid-June 2017 in Aleppo, following a number of militia crimes which were even reported in pro-regime media [21], a major crackdown was launched. The presidential palace sent Lieutenant General Mohammed Dib Zeitoun, head of State Security and one of Asad’s most powerful intelligence chiefs, in order to put an end to the militias’ lawless behavior. State Security and Air Force Intelligence troops started rounding up popular committee members in the Adhamiya, Akramiya, and Seif Al-Dawla neighborhoods, which resulted in some small skirmishes. In addition to this, the local head of the Baath Party, Fadel al-Najjar, also issued a decree tightening regulations on the Baath Battalions. [22]

However, there were significant challenges to curb the power of militias on a national scale. According to businessman Fares Al-Shehabi, the intervention of Bashar Al-Asad was necessary twice to issue orders to high security officials. [23]

The main challenge is that militia leaders are generally linked to powerful security agencies and prominent military officials, thus preventing municipal authorities from acting against them without the support of top-level decision makers.

On July 6, 2017, a large demonstration organized by industrialists and businessmen took place in the industrial zone Sheikh Najjar, denouncing the practices of militias in Aleppo. Demonstrators accused them of killing civilians and deliberately disrupting the return of water and electricity supplies by maintaining their control over services and prices. The protesters also condemned the extortion of money at military checkpoints by notably threatening workers with going to the military service if they did not pay. [24]. Meanwhile, on the road to Aleppo, truck drivers from the regime-controlled towns of Nubl and Zahra organized another demonstration against the checkpoint levies and the militiamen's violent behavior. They demanded the authorities to remove the checkpoints.

Aleppo was a test for the rest of the country for the regime to prove its capacity to guarantee “stability” for its population, and for Damascus to prove to the international community its capacity to control the areas under its control, and therefore to move forward on the issue of foreign-funded reconstruction.

However, this is only the beginning of a long battle to discipline the paramilitary forces in the country, including local militias such as the National Defense Forces (NDF) and Iran-controlled ones. As argued by a Syrian official in 2013 foreseeing the problem, "after this crisis, there will be a 1,000 more crises âEuros” the militia leaders. Two years ago they went from nobody to somebody with guns and power. How can we tell these shabiha to go back to being a nobody again. [25]?"

In summer 2017, lawless and violent pro-regime militias were still spreading chaos and creating insecurity in various
regime-held territories. [26]. By the end of August, according to opposition activists, fighters from Nusur Homs, a paramilitary group, refused to be inspected on their way into the city of Homs, instead opening fire on the police patrol and brutally beating a police officer. [27]. Furthermore, the number of checkpoints managed by militiamen throughout the country generally did not decrease, with some new ones popping up, leading to an increase in costs for producers and consumers alike.

Finally, there exist many other security challenges the regime is hardly capable of dealing with. One of them is the probable change in strategy of retreating jihadist groups, such as Hay'at Tahrir Ash-Sham (HTS) and the Islamic State (IS). There will be a shift towards suicide bombings in civilian areas which will also create more instability.

Crony Capitalists, They Always Want More

The militias are certainly one of the biggest challenge for the regime to restore "stability", but they are not the only one. The crony capitalists, empowered politically and economically throughout the war, are also to some extent impeding the return of certain bourgeoisie reinvestment in the country, and therefore the creation of a business environment favorable for reconstruction. The regime's military victories and increasing re-control of large portions of the Syrian territory encouraged Damascus to try to win back investors and businessmen who had left the country because of the war. Damascus' motivations are based on attracting investment and increasing business activity, while manufacturers decrease the need for imports, a crucial aspect as foreign currencies became very rare.

As a reminder, the closure of many workplaces since the beginning of the uprising in March 2011 led to massive job loss. The economy lost 2.1 million actual and potential jobs between 2010 and 2015. Unemployment in 2016 reached 60 percent, while youth unemployment increased from 69 percent in 2013 to 78 percent in 2015 [28]. The high level of unemployment and higher cost of living encouraged sections of the youth to get involved in the army or pro-regime militias, especially when the salary of a militiaman could be four times higher than a university teacher. [29].

In February 2017, Finance Minister Maamoun Hamdan visited Egypt to meet with the Syrian Businessmen Group âEuros" Egypt (TajammuâEurosÜ Rijal Al-AâEurosÜmal As-Suri Bi-Masr) [30], many of whom are manufacturers. He offered them many incentives such as a reduction in customs duties on production inputs, an exemption on all duties on machinery as well as on the sales tax, in addition to a rescheduling of any debt owed to state banks âEuros" a law passed in 2015 enables investors to reschedule their debts at relatively attractive conditions. [31]

Mr Hamdan also announced that the government was providing funds to establish an 8 MW power generating set for the Sheikh Najjar Industrial City in Aleppo as well as completing works on the Aleppo Airport. The investors answered with a list of requests, including a grace period of two years for their debts. They also raised several questions with regards to customs duties and other business regulations. A week after, a delegation of Syrian investors based in Egypt visited Damascus to meet with various government officials. [32]

Crony capitalists did not hesitate to criticize these government measures. A week after the minister's visit to Cairo, the newspaper al-Watan, owned by Rami Makhlouf, published a commentary piece ("The Egyptian Industrialists", February 26, 2017) strongly condemning the fact that the investors conditioned their return to Syria to the incentives provided by the government, and that they wished to return "only after the liberation of Aleppo. [33] According to economic news website The Syria Report, this piece aimed to pressure "those in the government that want them back. The mention that they should pay back all their dues, i.e. debt arrears and taxes, is a clear threat to the investors as to what they should expect were they to come back. [34]."

Syrian investors who left Syria during the war were from very diverse backgrounds and operated in a variety of
business sectors, but mostly had less powerful connections to the regime. Those located in Egypt, for example, are mostly industrialists in the textile sector; many of them came from Aleppo, meaning from an urban Sunni background; and the origin of their wealth had little connection to their relation with state institutions but was rather based on their capital investment. In a 2016 BIT report, the Syrian Center for Policy Research (SCPR) stated that up to 90 percent of industrial enterprises in the main conflict areas, such as Aleppo, have closed down, while the remaining ones operate at only 30 percent capacity. Consequently, Syrian industrialists had little options to stay.

At the time of the writing, there were no signs of massive return from Syrian industrialists, while the Egyptian regime announced in March 2017 its intention to establish an integrated industrial zone and other facilities for Syrian industrialists in Egypt as a counter initiative against attempts by Damascus to re-attract Syrian industrialists based in Egypt. Many elements certainly prevented the mass-scale return of Syrian businessmen in Summer 2017, but the behavior of crony-capitalists did not contribute to any willingness to come back.

As such, the recent call by Foreign Minister Walid Muallem for an "active economic diplomacy for preparing the right groundwork for the reconstruction phase in service of national interests" and "the importance of prioritizing expatriate contributions in the reconstruction process through enhancing communication and constructive interaction with the Syrian communities abroad" is rather difficult to materialize. This is in fact unachievable without collaboration with crony capitalists and other regime officials.

Conclusion

Economist Osama Qadi argued that "recovery might takes 20 years, assuming Syria post conflict starts in 2018 at 4.5% growth. In the current conditions, this seems rather optimistic.

The possible end of the war in the near future does not mean the end of the problems for the regime, quite the contrary. The regime will have to deal with a series of contradictions and challenges: on one side, satisfying the interests of crony capitalists and militias, on the other, accumulating capital through economic and political stability, while granting its foreign allies the major shares in the reconstruction business. Today, these objectives are rarely overlapping.

The resilience of the regime in its war against any kind of dissent has come at a very high cost, above all in terms of human lives and destruction, but also politically. In addition to the growing dependence on foreign states and actors, some features of the patrimonial regime have been strengthened, while its authority has diminished. Crony capitalists and militias have increased considerably their power, while the clientelist, sectarian, tribal features of the regime have been reinforced. Therefore, the absence of democracy and social justice, which were at the roots of the uprising, are still very much present and were even deepened.

However, the absence of an inclusive and structured Syrian political opposition appealing to all popular classes, and of social actors, such as independent trade unions or peasant associations, that could capitalize on the internal contradictions of the regime renders the transformation of various struggles into connected and organized political battles on a national scale, very difficult.

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[4] The estimates of what proportion of the population lived in informal housing before the uprising varies, usually fluctuating between 30 to 40 percent, but it might have been as high as 50 percent. Robert Goulden, “Housing, Inequality, and Economic Change in Syria,” British Journal of Middle Eastern Studies, Volume 38, Issue 2 (2011): 188.


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[27] "On Duty Police Officer Hospitalized by Loyalist Militants in Homs," The Syrian Observer (original Arabic source: Zaman Al-Wasl), http://syrianobserver.com/EN/News/3...

[28] "Syria at War, Five Years On." ESCWA and University of St Andrews (2016): 28. https://www.unescwa.org/sites/www.u... Poverty is estimated to be 83 percent of the population, and 2.1 million homes have been destroyed [[Brian Young, "FACTBOX: Syria's Conflict Economy."]]


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