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SANCTIONING ASSAD'S SYRIA

MAPPING THE ECONOMIC, SOCIOECONOMIC AND POLITICAL REPERCUSSIONS OF THE INTERNATIONAL SANCTIONS IMPOSED ON SYRIA SINCE MARCH 2011

Rune Friberg Lyme

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DIIS · DANISH INSTITUTE FOR INTERNATIONAL STUDIES

Danish Institute for International Studies, DIIS
Strandgade 56, DK-1401 Copenhagen, Denmark
Ph: +45 32 69 87 87
Fax: +45 32 69 87 00
E-mail: diis@diis.dk
Web: www.diis.dk

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Rune Friberg Lyme, Research Assistant
rune@friberglyme.dk

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Executive summary

Local demonstrations in the provincial town of Da'ra in March 2011 fuelled the eruption of unprecedented popular demonstrations and protests throughout Syria. The Syrian leadership's half-hearted promises of reforms were accompanied by brutal repression that propelled the conflict into escalating violence and ultimately a vicious and complex civil war. Dismayed by the unfolding events, a number of countries and regional organisations imposed sanctions on Syria with reference to the regime's grave human rights abuses from 29 April 2011 onwards. As the conflict has drawn out a substantial battery of international sanctions has been developed, most significantly by the USA, Turkey, the League of Arab States and the European Union. Aimed initially at bringing the repression to a halt and, later, to an increasing extent at weakening the Syrian regime, the sanctions have primarily targeted: equipment and material used for monitoring and repression; the Syrian oil and energy sector; the banking and financial sector; and there are also sanctions targeted at individuals believed either to be responsible for or assisting in the regime's oppression.

Commissioned by the Danish Ministry of Foreign Affairs, the present report explores the effect of international sanctions on the Syrian economy and their direct and indirect repercussions on the institutional infrastructure, the socioeconomic situation and the political power structures underpinning the regime's authoritarian rule. The report pays special attention to the restrictive measures imposed by the European Union.

Based on information made available through desk research, phone interviews and field research in Syria, Turkey, Lebanon and Belgium, the report argues that the sanctions have left a considerable mark on the Syrian economy, state institutions and the power structures underpinning the leadership but have also come at a significant socioeconomic cost to the Syrian population.

The international sanctions have severely hampered the fiscal and monetary agility and ability of the Syrian government. Importantly, the international sanctions have substantially curbed the Syrian state's ability to obtain revenues. The EU ban on import and transportation, insurance and reinsurance of Syrian oil products has been especially effective, as Syria has – except for isolated shipments – been unable to find alternative buyers and transport facilities. Sanctions on the financial sector have furthermore hindered – without debarring it – the regime's ability to perform international transactions, thereby limiting its ability to gain income from exports, to open letters of credit and to obtain foreign currency. State income has been further reduced by a substantial decline in tax income as a result of the decreased overall level of economic activity, for which the sanctions are partly responsible. Though the EU ban on providing banknotes to the Syrian Central Bank is unlikely to have a significant effect on the existing cash and cash equivalents in 2012, the ban has hampered the Syrian government's ability to cover increased public expenditure by letting the money printing presses roll.

Having failed to present a new comprehensive economic plan, the Assad administration has rolled back significant parts of the latter years' liberalisation reforms and maintained excessive public expenditure. In its fumbling attempts to cope with the profound changes in the country's economic environment, government efforts to strengthen trade, particularly with Iran and Iraq, combined with improved competitiveness resulting from the devaluation of the Syrian currency, may potentially stimulate export. With the combination of products of sub-market quality, lack of trading networks, profound obstacles to oil export, plummeting production in the agricultural and manufacturing sectors as a result of the deteriorating security situation and indirect effects of the sanctions, significant improvements in export revenues under the current circumstances are unlikely, as are increased revenues from tax collection. As a result, the Syrian government faces a substantial and unsustainable budget deficit and is likely to be experiencing a significant reduction of the country's foreign currency reserves, though the extent of the actual reduction remains unknown. Unprecedented efforts to collect payment for, among other things, electricity, in May 2012 seem to reflect the increasing need to recover any resources available.

The sanctions regime has had significant economic repercussions beyond the Syrian state and government. Complying and over-complying with the sanctions, international financial institutions have been highly reluctant to service Syrian nationals. This has indiscriminately presented all citizens and private businesses with bank accounts and credit cards with difficulties in performing international transactions, including transfers of remittances from abroad and external trade. As a result, private sector import and export of all types of products has been negatively affected. While the informal economic and trade structures of the past have been revitalised and secured resilience, transaction costs have increased and thus added to the overall price level. As such, the sanctions have contributed to the substantial inflation that the Syrian economy is experiencing. Furthermore, by having a negative impact on the general economic activity and reducing the international confidence in the Syrian economy, the sanctions have indirectly contributed to the increasing unemployment rates, decreasing salary levels and thus the fall in purchasing power. The significant decline in purchasing power has, for example, eroded access to food across the country, though food commodities are available outside areas directly affected by the violence. Thus, through second order effects, the sanctions add to the socioeconomic costs of the conflict and are likely to exacerbate pre-existing socioeconomic difficulties, particularly affecting the lower social strata of the population, including the substantial numbers of people affected by the latter years' drought and also a growing number of foreign refugees due to job losses in the tourism and hospitality sectors, lack of networks, and the prioritisation of Syrian nationals by employers and charity organisations alike. Charity organisations and informal networks distributing aid, food and other basic commodities have played a vital role in cushioning the social and humanitarian needs arising from the fighting and economic hardship. Domestic donations for these networks do, however, risk exhaustion as the economic hardship becomes prolonged. Although they are widespread, foreign donations and remittances need to be physically transported across the border in hard cash due to the sanctions on banks and restricted use of US dollars.

An important part of the sanctions targets individuals from business circles affiliated to and supporting the regime. It is highly plausible that the freezing of assets and, perhaps more importantly, the overall downturn in economic activity have negatively affected their income. However, reports suggest that the well-connected, wealthy cronies have established themselves as significant players, the so-called *tijar al-azma*, the 'traders of the crisis' in the unfolding civil war economy, exploiting and benefitting from the business opportunities arising from the crisis and the sanctions. Benefitting from foreign currency assets, cash flows and networks established before the crisis, they have not only been able to exploit the devaluation of the Syrian currency but also to benefit from the black market opportunities that have arisen with the limited supplies of diesel, heating and cooking oil, and gas, as well as from smuggling and weapons sales. Though the sanctions are by no means the only – nor the primary – reason behind the emergence of such economic conditions, the sanctions may have contributed to their development.

The Syrian state is dissolving. Civilian government institutions have reportedly kept functioning in Damascus with salaries, albeit lowered and delayed, continuing to be disbursed at least until mid July 2012. Outside the capital the state structure is apparently crumbling. According to the information available, public social service infrastructure has, to a large degree broken down. Local government is reportedly non-existent in some areas; schools and hospitals have been used instrumentally in the repression; lack of security and damage to facilities has limited access and public funding is allegedly dwindling. In the growing parts of the country now controlled by opposition groups, networks and local coordination committees have taken over basic services and aid. By curbing Syrian state revenue and suspending development projects and credit agreements, the EU, the Arab League and Turkey may have contributed to the deterioration of institutional infrastructure and social service performance, both at the state level and at the local level, by limiting the resources available. However, considering the regime's track record over the course of the conflict, there is reason to believe that the Syrian leadership would prioritise channelling available financial resources to the security and military sector rather than to civilian state institutions. In addition, the security sector, including the paramilitary *shabiha*, is purportedly finding financial resources external to the Syrian state. The business moguls closely affiliated to the regime – including those benefitting from the flourishing black market – are believed to help fund *shabiha* and security and military forces are reportedly involved in industrial scale looting and smuggling, thus thriving on the conflict itself and being sheltered from the effect of the international sanctions.

The number of defections accelerated in the summer of 2012, especially in parts of the military. These defections appear more a response to the increasing brutality of the regime than as having been provoked by the sanctions, however. The institutional impact of the defections seems, in addition, limited. Moreover defections, public shifts of allegiance or other signs of cracks emerging in the regime's listed inner circles of businesspeople and security and military officials continue to be remarkably low, with the defections following sectarian lines, adding to the intensifying sectarian connotations of the conflict.

Through curbing the regime's ability to obtain revenues, the sanctions have arguably hampered its ability to benefit from important sources for sustaining and rebuilding constituencies and pillars of support. The sanctions have created financial or symbolic incentives for dissociation from the regime by important business communities outside the inner circles. The extent to which these have worked is difficult to assess, firstly as large segments of the business community are believed to be supporting both (or rather several) sides of the conflict, and secondly because dissociation may also reflect a reaction to regime behaviour rather than being a result of sanctions. Irrespective of this, through the summer of 2012 there seems to have been a tendency for some previously regime-faithful parts of the traditional business community to leave the side of the regime. The government's efforts to stimulate self-sufficiency, export to the Iranian and Iraqi markets and cancellation of economic liberalisation reforms arguably reflect attempts to co-opt and appease parts of the agricultural and industrial business community, which have been gradually marginalised in the course of the last decade. With violence increasingly engulfing production zones, and with resources to maintain patronage networks dwindling, there is reason to doubt that the government has much to offer potential clients. Furthermore, disbursement of public salaries, food and fuel subsidies has been affected by the lack of resources available to the regime. However, in a conflict increasingly marked by polarisation and sectarian fears, financial incentives are becoming secondary to survival. As long as the regime is able to provide a minimum service to its supporters, the deteriorating socioeconomic conditions may lead to rising numbers of refugees and radicalisation rather than to significantly intensified political pressure on Assad's regime.

1. Introduction

Fuelled by a local uproar over the arrest, detention and abuse of a group of protesting teenagers in the sleepy, provincial town of Da'ra 113 kilometres south of the capital, unprecedented protests and demonstrations started erupting across Syria from mid March 2011 on.[1] As protests and demonstrations spread to nearly all parts of the country and evolved into a highly fragmented uprising, the Syrian leadership responded with brutal repression that made its belated promises of reforms appear half-hearted at best, and propelled the conflict into ever-escalating degrees of violence and, ultimately, civil war. Characterised by international human rights organisations and UN agencies as crimes against humanity, the Syrian government's widespread, systematic and gross human rights violations prompted an expanding battery of international sanctions from 29 April 2011. While Russia and China have continuously blocked for UN sanctions, an elaborate sanctions regime has been developed by a concert of countries and regional entities, most importantly by the United States, the League of Arab States, Turkey and the European Union. With the stated intent of bringing regime violence to a halt, the sanctions have largely been targeting specific individuals believed responsible for the repression and/or believed to be closely affiliated to the regime and vital aspects of the Syrian economy. They employ various punitive measures such as bans on trade, import and export within specific fields and economic sectors of vital importance to state revenue.[2] Despite their intentions, such sanctions must, however, be expected to entail a significant risk of repercussions that reach far beyond the walls of the presidential palaces and security headquarters.[3]

Commissioned by the Office for the Middle East and North Africa at the Danish Ministry of Foreign Affairs, the present report explores the impact of international sanctions (imposed since March 2011) on the Syrian economy, as well as their direct and indirect repercussions on the institutional infrastructure, the socioeconomic and humanitarian situation and the political power structures underpinning the regime's authoritarian rule. Special attention is paid to restrictive measures imposed by the EU.

[1] See ICG 2011 and Leenders & Heydemann (2012) for interesting perspectives on how and why Da'ra became the hotbed of the uprising.

[2] Though sanctions were, in 2011, often accompanied by political demands for the resignation of President Bashar al-Assad by most of the imposing countries and entities, no such claims are found in the legal documents supporting the sanctions.

[3] As one EU official stated: "*No one is under the illusion that this does not affect the population*" (EU diplomat, 17 Feb 2012).

1.1 About this report

The present report was prepared from 15 January–15 July 2012.[4] In addition to publicly available data, the research benefitted from 34 interviews with diplomats, economists, international and national development and aid workers and scholars, carried out by phone, by Skype or during field visits to Brussels and Damascus, Beirut and Ankara, which took place from 16–30 February 2012.

Due to the sensitive nature of the issue discussed, delegates from international aid organisations and diplomats are anonymised in order to allow them the liberty to provide information that would otherwise be unobtainable. For the same reason, information obtained through internal working papers is also left without reference.

A recurring problem throughout the preparation of the present report has been scarcity of accurate and valid aggregated data. Though much work has gone into collecting and putting pieces of information together, considerable lacunae remain, simply because the required data is currently unobtainable in the constantly developing conflict in Syria.

When assessing the impact of the sanctions, it is important to keep in mind that impacts caused by the sanctions are endogenous to other domestic or international dynamics embracing the conflict. This means that alterations in behaviour are not necessarily caused by the sanctions exclusively. In addition, any ramifications of the sanctions might interact, intertwine, mutually exacerbate, counter or in another manner affect the impact of other factors. It is therefore important to also be attentive to other factors and dynamics than those impacts that can be directly attributed to the sanctions. Though disentangling impacts from the different dynamics is rarely clear-cut, the report will seek to specify which dynamics are believed to be significant in a given context.

1.2 Structure of the report

Assessing the impact of the sanctions requires an understanding of the situation prior to the current conflict. Such will be provided in chapter 2, which presents the main characteristics of the Syrian economy and the liberalisation process pursued

[4] During the editorial process in August 2012, a few amendments and data were added.

during Bashar al-Assad's presidency. In addition, the process' significance for the socioeconomic and power structures will be accounted for.

Chapter 3 outlines the sanctions imposed on Syria from April 2011 by the United States, the League of Arab States, Turkey and the EU.

Chapter 4 provides a brief overview of the political and security developments since the uprising began and, in more detail, the key developments in the economy.

Chapter 5 will analyse the impact of the sanctions. Initially, the impact on the economy will be assessed. Subsequently, attention will be turned towards the institutional infrastructures and how these have been affected. Then, before analysing the impact on the power structures underpinning the regime, the socioeconomic repercussions of the sanctions will be discussed.

Chapter 5 will conclude on the findings of the report and identify sectors and aspects for future consideration.

2. The Syrian economy and power structure reconfiguration in the 2000s

Since Bashar al-Assad took over the presidency from his late father in June 2000, the Syrian economy and the internal Syrian power structures underpinning the Assad family's authoritarian rule have changed significantly. The following chapter provides an exposition of the Syrian economy and the most important economic and political developments in order to outline the situation as it was prior to the start of the uprising in March 2011.

2.1 Selective liberalisation process during the 2000s

Drawing on a legacy of state intervention, import substitution and price, trade and foreign exchange control, the Syrian economy experienced wide-ranging and steady, yet slow and selective, liberalisation reforms during the 2000s.

The liberalisation efforts were accelerated with the introduction of the so-called 'Social Market Economy' in June 2005. Through more than 1,000 new laws and decrees, the process included privatisation of state-owned farms and companies, transformation of public enterprises into autonomous companies, streamlining of the tax system with introduction of value added tax, phasing out of some price subsidies and simplifying and partly liberalising the exchange rate system, in addition to attempts to diversify the economy. Relaxation of the banking laws and rules regulating bank lending allowed the partial opening of the banking sector allowing the first private sector banks (permitting 49% – and later 60% – foreign ownership) to become active in 2004. Holding companies were established in 2007 and the Damascus stock exchange was launched in March 2009. Operation of private money exchange companies was liberalised in 2006 and in the following year investors were allowed to obtain loans and other credit instruments from foreign banks. Syria, furthermore, liberalised its trade regime with a gradual lifting of import restrictions, reduction of customs barriers, partially opening the Syrian market to international competition. This included joining of the Greater Arab Free Trade Area in January 2005, thereby helping Syria to compensate for the relative economic isolation and opening up to attractive foreign investments, especially from the Gulf. While an initiated association agreement process with the EU was not finalised, Syria and Turkey entered a free trade agreement in 2007. A vision of continued growth of the private sector and integration of the Syrian economy in the global economy was restated in the 11th Five-Year Plan for 2011–2015, approved by the Syrian government on 14 November 2010.[5]

The liberalisation process proved, however, selective and partial as the economy overall remained highly regulated and subsidised. Despite the introduction of private banks, the banking and financial sectors have remained weak with risk-averse domestic and foreign investors hesitating to invest significantly.[6] As such, the economy remained restrained by a bloated, corrupt and ineffective public administration, declining oil production, rising budget deficits and external and domestic shocks[7] (see e.g. IMF 2010). The government has also struggled to absorb the 250,000 to 300,000 new jobseekers yearly (some observers put the estimate even higher),[8] stemming from an annual population growth rate estimated between 2.45–3.3%. According to official data, the unemployment rate was around 11% by 2010, most likely disguising high levels of underemployment (IMF 2010: 4).[9] Other observers and entities put the rate significantly higher. The International Labour Organisation has estimated the unemployment rate at close to 18% (Raphaeli 2007: 45), while the Economist Intelligence Unit (EIU) in 2008 claimed that the figure had risen to more than 25% if underemployment was included (EIU 2008: 9).

Constituting a profound challenge to the Syrian economy, the domestic energy market remained highly subsidised. During the 10th Five-Year Plan USD 28.3 billion (thousand millions) was spent on power and fuel subsidies. Though serious reform steps were taken in May 2008, causing a 240% price increase on diesel (and 33% on gasoline)[10],

[5] The plan aimed to achieve average growth of 5.7% in the next five years, with SYP 4.3 trillion (USD 94.5 billion) of investment required. Public investments were to provide SYP 2 trillion (USD 43.5 billion) and the private sector 2.3 trillion (USD 50 billion). The bulk of this was to go into manufacturing, construction, finance and extractive industries, while public investment will be concentrated in government services, transport and storage, agriculture and water (particularly irrigation networks).

Another important strategic vision has been the so-called Five Seas Initiative, aimed at positioning Syria as a transit point for oil and gas from the Red Sea, the Mediterranean, the Caspian Sea, the Black Sea and the Gulf. (See for e.g. Bashar al-Assad in Oxford Business Group 2011: 18)

[6] As one observer wrote in 2008: "*Despite the introduction of private banks in Syria, there is still a complete absence of a banking culture in the country*" (Marshall 2008). Lending and getting credit has remained highly challenging. Rather than helping mid range investment activity, banks (and their well-connected shareholders) have preferred to finance projects with large short-term profits (Marshall 2008).

[7] Amongst such shocks should be counted the severe drought across four consecutive years from 2007, the international isolation of 2003–2006 and the loss of direct access to and partial control over the attractive, liberalised Lebanese market from 2005 – as well as providing jobs for some 700,000 Syrians by the mid 1990s.

[8] See for example Raphaeli 2007: 45–46.

[9] These numbers only account for Syrian nationals and not for the many refugees, particularly Iraqis, among whom unemployment has been widespread.

[10] In order to mitigate the impact of the higher prices, the authorities increased public wages and issued coupons allowing households a certain amount at lower prices, which was later replaced by targeted cash transfers (IMF 2010: 10).

substantial challenges remained as the Syrian government has been spending over USD 1.5 billion annually on diesel alone (Haddad 2011: 3).

Despite its shortcomings, the slow, but steady partial liberalisation efforts caused cautious optimism amongst observers before the outbreak of the uprising.

2.2 The basic structure of the Syrian economy

Syria is generally considered a middle-income developing country with a relatively diversified economy based on primarily agriculture, industry, tourism, and energy. From 2004 and 2009 Syria experienced an annual growth of between 4.5% and 6.9%, averaging 5.4% yearly, dropping to 3.2% in 2010, while proving relatively resilient to the global financial crisis. Thus, in 2010 Syria's GDP totalled USD 59.1 billion (World Bank 2012). Primary venues for economic growth were Syria's energy and service – mainly tourism – sectors.

Syria's energy and mining sector has been a key asset, especially phosphates, natural gas and, most importantly, crude oil. Though no match for the biggest oil-producing countries in the region, the oil sector has been a pillar for the Syrian economy since the mid 1980s. In 2010 oil production made up 9.5% of Syria's GDP by official accounts, while oil exports remained the most import source of foreign currency earnings. This is in spite of a long-term decline in oil production from 527,000 b/d in 2003 to 379,000 b/d in 2010, making Syria a net oil importer by 2008. For a number of years Syria has been a net importer of oil products. Its portfolio of imports include various derivatives not produced in the country's two refineries in amounts sufficient to meet the market's needs, as well as light crude oil used for mixing with heavier grades in processing in local refineries. However, higher crude oil prices cushioned the declining oil production and led to budgetary and export receipts peaking in 2008, making up 48.3% of export receipts in 2010. Oil has provided the Syrian government with an important source of fiscal revenue as oil revenues annually averaged more than 25% of the total fiscal revenue from 2005–2009 (IMF 2010).

With a focus on self-sufficiency in staple food products, the agricultural sector has traditionally played a crucial role for the Syrian economy, providing employment for some 30% of the labour force. However, the labour intensive agriculture sector has made up a declining proportion of the Syrian economy over the last decade. From 2002 to 2009 agriculture dropped gradually from 26.8% of GDP to 17% in 2008 (but did, however, surge to 22.3% the following year). At the same time, direct employment in the sector dropped gradually to less than 15% by 2010 (World Bank 2012). Three important staple crops – wheat, cotton and sugar beet – remained directly subsidised. Severe drought for four consecutive years from 2007 badly affected the agricultural sector, especially in the north-eastern governorates of Hassakah, Deir ez-Zour and Raqqa, and was exacerbated by systematic bad and corrupt management of water resources, as well as agrarian reforms that benefitted water intensive, large, privately owned farms.

Dominated by chemicals, food, textiles, clothing and leather, the relatively diversified manufacturing industry has remained remarkably small. Exposing the Syrian market to competition from Gulf-based business (or exports passing through the Gulf and relabelled as produced in the region) as well as Turkish products, while lacking development funding had a significant negative impact on manufacturing, especially textiles and furniture. This specifically affected industrialists in the vicinity of Aleppo, which accounts for at least 75% of the country's industrial output.

Though not having fulfilling its hyped potential, the tourism sector nevertheless became an increasingly important part of the Syrian economy, bringing home some 23% of the country's hard currency earnings and an estimated 11–12% of GDP in 2010 (Haddad 2011; OBG 2011: 167).

In 2010 Syrian exports stood at USD 12.2 billion and imports at USD 17.4 billion. Despite increased export diversification to other regions, since the 1970s the EU has maintained the position of being Syria's primary trading partner (though its ratio has dropped considerably). Since 2009, EU has been net exporter. Trade with the EU27 amounted to 21.6% of Syria's EUR 31.53 billion international trade in 2010. Largely made up of mineral fuels (88.7%), valued at EUR 3.19 billion (with an additional 4% crude material, except fuel), EU27 received 27.7% of Syria's exports in 2010, worth EUR 3.246 billion (Eurostat 2012). This made EU27 Syria's second biggest export market, while the two neighbouring countries of Iraq and Lebanon were its primary and tertiary export markets, taking 30.2% and 11.8% respectively. As the sixth biggest trade partner, Turkey took 3.9%, worth 0.46 billion, while exporting for EUR 1.531 billion (Eurostat 2012). With Turkey benefitting from being a net exporter, trade between Turkey and Syria surged by approximately 30% annually. The FTA signed between the two countries had helped towards a threefold increase in the exchange of goods in four years from USD 796 million in 2006 to USD 2.2 billion in 2010. Despite Syria's access to GAFTA, intra-Arab trading has remained low as Syrian products remained uncompetitive, both regionally and internationally. In addition, remittances from Syrians and relatives abroad have been a significant source of income. According to official sources, USD 800 million are transferred annually while observers suggest some USD 3 billion are (interveiw, Nabil Sukkar 20 Feb 2012).

The budget deficit remained manageable, fluctuating between 2.5 and 3.7% of GDP during 2006–2010. A significant cost on the expense account has been energy subsidies. Until the 2008 reforms of the energy subsidies, the energy subsidies accounted for 12.9% of GDP.[11] By 2009 these dropped to 4.9% (IMF 2010: 10). As inflation took a significant hike between 2005 and 2010, averaging more than 7% annually, purchasing power suffered notably (EIU 2011). At the end of 2010, a few weeks before the beginning of the Syrian uprising, the government announced that it planned to increase the prices of all energy products until they reached market levels by 2015.

By 2010 Syria controlled the third largest reserve of foreign currency in the Arab world, estimated at between USD 12 billion and 17 billion, the equivalent of nearly three quarters of Syria's entire annual import.[12] Following the 2005 rescheduling of debt with the former Warsaw Pact countries, public debt has been low, standing at around USD 7.3 billion in 2010.

2.3 Increasing social and regional inequalities

While the liberalisation process which accelerated through Syria in the 2000s brought macroeconomic benefits, it also aggravated social and regional inequalities in Syria. The process largely benefitted the educated, urban, upper middle class and saw the rise of economic oligarchs who extracted considerable wealth from virtual monopolies on newly opened business opportunities, particularly in sectors like oil, telecoms, pharmaceuticals and chemicals, electronics, agro-business and tourism, while midrange investment activity was lacking.

Despite a near doubling of GDP per capita from 2005 to 2009, according to the Central Bank of Syria, nearly 70% of the workforce earned less than USD 100 a month in 2008, with some 40% of public sector employees taking second jobs to boost their

[11] A large amount of fuel is believed to have been smuggled out of the country. Former Prime Minister Naji al-Otri estimated in 2007 that some 25% of the subsidised diesel had been sold illegally outside Syria.

[12] IMF has generally accepted USD 17 billion (IMF 2010: 5), as does EIU (2011: 17). Based his own research, one economist has pointed out that the foreign currency reserve was – by the end of 2010 – 650 billion SYP which only equals USD 12 billion. The amount of USD 18 billion should be a result of the use of different exchange rates (Yazigi, 21 Feb 2012).

incomes (EIU 2008: 18; OBG 2011: 29). After a 25% increase in public salaries in 2008 (necessitated by the abovementioned reduction in fuel subsidies), an average Syrian government salary in 2010 was in the range of USD 225–270 a month.[13]

Though the Tenth Five-Year Plan of 2005 explicitly stated a planned reduction of the number of people living in poverty by 20–30%, poverty is believed to have increased considerably during the last decade. Data on poverty in Syria – and particularly recent data – are, however, limited. The most comprehensive of its kind, a UNDP study outlining poverty in Syria during the period from 1996 to 2004 showed that 11.4% of the population were unable to obtain their basic needs. An additional poverty line was employed for those spending less than SYP 2,250 (less than USD 50) on basic needs per month, at which the proportion of poor people amounted to 30% of the population or around 5.3 million people, of which 68% were concentrated in the rural areas, especially the north-eastern rural governorates of al-Raqqah, Deir ez-Zour and Hassakah (el-Laithy and Abu-Ismail 2005). A snapshot study in 2007 showed that 12.3% (around 2.4 million) were found below the lower limit, while 33.6% of the population (around 6.7 million) were below the higher limit, again with the north-eastern part worst affected (Sara 2011: 8).[14] Though data are unavailable, it is highly likely that these numbers had increased considerably by the turn of 2010 as a result of end of the fuel subsidies in early 2008, the general price increase and the four consecutive years of severe drought that took a heavy toll on the rural population.[15] The extensive drought left – by cautious estimates – some 800,000 people severely vulnerable and forced a massive migration, mostly to the suburbs surrounding urban centres like Damascus, Aleppo and Homs. Assessments of the extent of migration vary. The International Federation of Red Cross and Red Crescent Societies (IFRC) assesses that 65,000 families left their villages (IFRC 2011: 3), while the UN Special Rapporteur Schutter estimates that as many as 600,000 people migrated

[13] In an unprecedented step, in 2009 the General Federation of Trade Unions released a statement reading that as a result of the reforms, the rich had become richer and the poor poorer and that the 65% increase in public sector salaries over recent years was outstripped by inflation, burdening public workers and their families, many of whom were approaching or sinking below the poverty line (Haddad 2011: 5; Syria Today, Dec 2009)

[14] In May 2010 a Syria Today article claimed that an SPC and UNDP report on poverty up to 2007 was to be released (Syria Today, May 2010). Quoting "well-informed sources", the article claimed that the rate of people living in extreme poverty rose from 11.4% in 2004 to 12.3% in 2007 and those living below the upper poverty line rose from 30.1% to 33%. However, it has not been possible to find the aforementioned report nor whether it has been released or not, and verify these information.

[15] In 2010, a representative from the Syria Trust for Development, Rabie Nasr, claimed that poverty had increased 10% since 2005, concentrated mostly in the north-east and south, at the First International Development Conference of Syria 2010 on "*Emerging Role of Civil Society in Development*" in Damascus, according to Haddad (2011).

(UNHCR 2010).[16] A pre-conflict food security survey found that 1.4 million people – especially those from areas hit hard by the drought – were struggling to meet their daily food needs.

Especially in the initial stages of the conflict, dissatisfaction with socioeconomic hardship fuelled the uprising against the regime, with many migrants residing in the suburban outskirts of the main cities joining and driving the protests.

2.4 Reconfiguring the authoritarian powerbase

The reforms reflected – and were inextricably intertwined with – reconfigurations in the powerbase on which Bashar al-Assad based his authoritarian rule, following internal succession conflicts before and after the death of his father.

Working within the constraints of the one party system, Bashar al-Assad gradually expunged parts of his father's old guard, promoting Sunni elites from the main urban centres, Damascus, Aleppo and Homs, to powerful and sensitive government positions. His father had mostly incorporated Sunni elites from provincial cities, thereby co-opting urban elites, complementing his dependence on Alawites, the main pillar of his support base.

Importantly, an organic alliance between elites within military, security and civilian state institutions and an emerging class of private sector entrepreneurs became a vital pillar of regime power. The selective liberalisation process provided instruments for co-opting and re-organising networks of allegiance and patronage as the resources generated by the economic openings and economic regulation were, first and foremost, exploited by regime elites and their close allies (Donati, 2012:40). The new organic networks often involved close kinship between security, military and state officials and a new generation of business entrepreneurs (Ismail 2009). Known as *awlad al-sultah*, the 'children of authority', the newcomers were often descendants of – or married into families of – the older generation of state elites that had built their wealth and influence in the public sector. As a result those investing and those regulating and administrating would often have close family ties (if not being the very same people) (Haddad 2012: 173). Furthermore, several hundred officers within the army and security services had close ties to the private sector, bring either involved through partners (often fathers or offspring working both in the public and private spheres

[16] For a good overview see Reuters, 27 Jan 2010.

respectively) or working as 'protectors' and/or being businessmen, thus making it difficult to draw the line between the two (Haddad 2012: 108).[17]

The lion's share of the new opportunities and market openings went to a small group of individuals associated with the regime, either through family ties and/or through public governmental positions in the military and security services. The new entrepreneurial elite received licensing and concessions within the public services and could delegate management to gain the most profitable projects, benefit from tailor-made regulation, and enjoy privileged access to foreign investments and expatriate Syrian and Arab business communities (Donati, 2012:45). They were therefore the ones largely benefitting from the opportunities arising from liberalisation, especially within sectors such as energy (oil and gas), telecoms and IT, duty free zones, pharmaceuticals, chemicals, electronics, agro-business, tourism and car dealerships.[18] These people therefore owed their fortunes (or large parts thereof) to their organic relationship with regime insiders. By gathering patronage networks in, among others, the newly established holding companies of al-Cham and al-Souray, controlled by the new entrepreneurial class, the regime not only undercut any other collective action to rally private sector businesspeople against the regime, but by creating strategic openings to benefit its allies (and family members), the regime also assured themselves of allies through interdependence (Donati 2012:42; Haddad 2009: 39).

The organic alliance between regime and the new business elite extended into the sphere of developmental organisations; NGOs – or rather governmental NGOs or 'GONGOs' – helped broaden the regime's social base through developmental projects. Meeting some of the needs left unmet by a dysfunctional and corrupt state apparatus, a parallel structure of organisations under the umbrella of Syria Trust for Development, sponsored by the First Lady Asma al-Assad, forged extra-state and extra-Ba'ath patronage networks providing services like agricultural micro credits,

[17] This incited one scholar to state that: "*Syria has a private sector that is not 'private' at all, since most assets are owned by individuals who occupy state positions*" (Haddad, 2009: 32). An illustrative example of the close relationship is the nexus between president Bashar al-Assad and his maternal cousins Rami and Hafez of the Alawite family of Makhlouf. The former is a business tycoon per excellence and arguably the most powerful economic figure in Syria who has built an inheritance from his father – generated by managing state and private sector companies – into a business empire including TV companies, banks, duty free retail shops, Syriatel and al-Cham holdings. The latter is a colonel and head of the Damascus branch of the General Security Directorate.

[18] One can, in fact, divide between several segments. One economic elite state segment, predominately rural and Alawi, working through state agencies explored new opportunities within the oil sector, telecoms, duty free zones, pharmaceuticals and chemicals, electronics, agro-business and tourism. Another state elite segment with close relations to the very top of the regime derived its wealth from recent entries into lucrative private sectors such as communications, IT and car dealerships. Relations with individuals and institutions in the private sector remain informal (See overview Haddad 2012: 66)

educational activities etc.[19] (Sara 2011: 13). Not only did these organisations benefit from significant contributions from businessmen and private companies close to the regime, these organisations in addition helped absorb well-educated upper middle class urban youth entering the job market and thus, in effect, helped appease the upper middle class.

The new elite challenged, though not entirely crowded out, the influence of the traditional Sunni business bourgeoisie and the Ba'ath party's traditional hegemony over political and social control. The old, predominantly urban, Sunni bourgeoisie, composed of traditional merchants and industrialists, often with their roots in the Aleppo and Damascus *souqs* (the latter a crucial pillar for Hafez al-Assad) suffered from the exposure to international competition with foreign products of a higher quality and at lower prices than the domestic produce. Concerned with the newcomers' oligarchical control of newly opened sectors, the traditional merchants saw *awlad al-sultah* further try to muscle in on established merchants' business sectors (See Ismail 2009: 20f). Simultaneously, the established business communities' ability to influence the regime suffered from the newcomers' close relationship within the military, security apparatus. Having traditionally shied away from overt political action, they had to play by the rules and struggle with Kafkaesque bureaucratic procedures while rules were tailor-made for the new entrepreneurial class (Haddad 2009: 31).[20]

The Ba'ath party, too, saw its influence partly eroded. The liberalisation was headed by non-Ba'athist Abdallah Dardari, first as head of the State Planning Commission and, from 2005, as Deputy Prime Minister for economic affairs. He was highly contested by Ba'athist traditionalists (while simultaneously occasionally serving as a scapegoat for the regime to blame for the socioeconomic repercussions of the liberalisation when

[19] The organisations most closely connected with development and combating poverty are organisations such as the Fund for Rural Development of Syria (FIRDOS), the Mawrad Institution for the Advancement and Activation of the Role of Women in Economic and Social Development, and the Syrian Young Entrepreneurs Association (SYEA).

[20] Membership of the chambers began in the 1980s where it became a de facto prerequisite for acquiring a commercial, industrial record and business licenses (Haddad 2009: 40). Though the chambers of commerce have always been tied to the regime and have played a limited role in representing the interests of the wider merchant class, the increasing influence of the new, entrepreneurial economic class at the expense of the traditional business bourgeoisie in its proximity to the regime was reflected in the presidential appointment of Bassam Ghrawi as Secretary-General of the Damascus Chamber of Commerce and SG of the Federation of Syrian Chambers of Commerce, a post occupied for two decades by Ratib Challah, based on a close relationship with Hafez al-Assad and strong roots in the traditional Damascus souk (Ismail 2009: 17). However, it is equally important to note that the regime made sure not to alienate Challah (appointing him honorary president of the Damascus chamber of commerce and president of the board of directors of the stock exchange), reflecting the regime's attempt to strike a balance between relying on a new elite and not alienating the old one.

convenient). As the state's social services decayed, while focusing their benefits on the urban centres the Ba'ath party and related organisations' ability to access and service their patronage networks with services and benefits and to secure promotions to their traditional constituencies in the rural zones was eroded and they became increasingly more marginalised compared to the time of Hafez al-Assad's reign (ICG 2011 14). By no means did this result in Ba'ath influence becoming obsolete. Individual party officials and loyalists controlled crucial positions at all levels of the administration and public sector, enabling them – despite the partial erosion of their power – to maintain control of the well-established and extensive patronage networks (Haddad 2012: 66–68). As the public sector continued to serve as an important instrument to absorb the new entries to the job market, especially those with little education or training, the Ba'athists remained essential in maintaining the regime's authoritarian rule, while the status of the Ba'ath party as an institution, a patronage system and an ideology was hollowed out. At the same time, the Ba'ath patronage systems were simultaneously challenged by the GONGO's under the patronage of the First Lady, as the latter became instrumental in building patronage systems, securing attractive jobs for well-educated youth and offering various agricultural and developmental services to those less fortunate. Simultaneously, the Ba'ath patronage system was exposed to competition from religious or civil associations, as the state shifted responsibility for well-defined welfare tasks to organisations such as the Aga Khan Development Network as the public social services deteriorated.[21]

2.5 A decade of shifting power alliances and increasing socioeconomic inequality

In the decade that preceded the uprising, Syria changed its economic and power structure significantly. A comprehensive, yet slow and selective, liberalisation process strengthened the country's macroeconomic growth performance. However, the opening of the Syrian market to international and regional competition took a heavy toll on the manufacturing industry especially in the Aleppo area, while oil export, especially to the EU, remained a source of substantial revenue for the Syrian government. The process furthermore aggravated social and regional inequalities notably, as it failed to meet the increasing demand for job creation and poverty reduction, while public

[21] The new elites even challenged the Ba'ath traditionalists as they began seeking political representation. The party's importance as a mobilising driver for the regime declined and was to some degree taken over by the new commercial elite. This was clearly demonstrated in the presidential referendum in 2007 where the business elite mobilised regime support, covering the costs of all meeting venues in the country. These networks have been highly active in organising and financing demonstrations and *shabihas* in favour of the regime during the uprising of 2011 (Donati, 2012:52).

services provided by a corrupt and inefficient Syrian bureaucracy were gradually eroded. Instead, the lucrative business openings, brought about by the liberalisation process, primarily benefitted an emerging entrepreneurial business class due to its organic and tightly knit (often family) ties to the inner core of the regime, creating a high degree of interdependence – and to some degree blurring of the distinction – between the two. This posed a challenge not only to parts of the traditional business community but also gradually hollowed out the Ba'ath influence of traditionalists and patronage networks. As the international sanctions were imposed from April 2011 in response to the ruthless misconduct of the Syrian authorities, these inner circles of the regime and *awlad al-sultah* were soon to be targeted.

3. International sanctions and suspensions of trade agreements

A comprehensive and elaborate battery of international sanctions has been developed since the US – as the first international entity to do so – imposed sanctions with reference to the human rights abuses in Syria on 29 April 2011 (US EO. 13572). While the UN Security Council has considered resolutions to address the crisis, these have consistently been vetoed by Russia and China. Instead, sanctions have been imposed bilaterally by a number of regional and national entities, most importantly by the United States of America (US), the European Union (EU), the League of Arab States (LAS) and Turkey.[22] The following chapter will present an overview of the most significant aspects of the sanctions.

3.1 US Sanctions

The unrest in Syria has thus far provoked five executive orders (13572 of 29 April 2011, 13573 of 18 May 2011, 13582 of 18 August 2011, 13606 of April 2012, and 13608 of 1 May 2012). The US sanctions imposed on Syria from April 2011 were additions to an elaborate complex of sanctions already in place. The 2003 Syria Accountability and Lebanese Sovereignty Act (SALSA) included prohibitions on exports of most goods containing 10% US-manufactured component parts to Syria, apart from food and medicine, a ban on US businesses operating or investing in Syria, a requirement that US financial institutions sever correspondent accounts with the Commercial Bank of Syria, an assets freeze on Syrian security officials and entities considered inimical to the United States and a ban on any US persons, including US financial institutions outside the United States, conducting transactions with them.[23] In 2006 US banks and their overseas subsidiaries became barred from maintaining correspondent accounts with the Commercial Bank of Syria, as a part of the USA Patriot Act. Direct US and Syrian economic ties were therefore already limited before the uprising

[22] A number of other countries have imposed sanctions on Syria. Amongst others, these include Canada, Australia, Japan and Croatia. Running counter to occasional speculations in the international media about the Syrian regime keeping its assets in Swiss banks, it is worth noticing that Switzerland introduced sanctions against Syria immediately after the EU and has followed EU sanctions in general, reflecting its softening of bank secrecy in latter years to counter a reputation as destination for ill-gotten gains. In December 2011, the Swiss State Secretariat for Economics announced that it had frozen USD 53 million of funds belonging to Assad.

[23] In practical terms, this meant being added to the US Treasury Department's Office of Foreign Assets Control's Specially Designated Nationals list.

began and a number of people from the regime inner circles sanctioned (Sharp & Blanchard 2002).[24]

Setting them apart from the sanctions regime of other entities, US sanctions go far in attempts to prevent third parties from providing Syria with goods, services, or technology, thus further isolating them from international markets, by making these choose between doing business with the US or doing business with Syria. This was underlined with executive order (E.O.) 13608 of 1 May 2012, broadening the sanctions' general scope by prohibiting US persons from (most) commercial or financial transactions with "*foreign sanctions evaders*" violating US sanctions, and foreign persons who facilitate "*deceptive transactions on behalf of any person*", thus obstructing the use of 'straw men'.

An important component of US sanctions is blocking the assets of, and prohibiting interaction or transactions with, designated individuals and entities, encompassing individuals and entities from the political, security and business sectors. Initially, the sanctions targeted individuals directly responsible for, complicit in, assisting or providing financial, material or technological support to human rights abuses, but soon the targeted circles expanded as additional businessmen and entities, politically or financially associated with the regime, were designated. In April 2011 three security officials, including Maher Assad, the brother of President Bashar al-Assad and Commander of the Army's 4th Division, and two entities (including Iranian Islamic Revolutionary Guards Corps – Quds Force) were the first ones to be targeted, later followed by additional security officials. Three weeks later, in E.O. 13573, senior officials and security agencies of the Syrian Government were listed, including President al-Assad, three ministers on interior issues and heads of intelligence services. In August, senior political figures were further added, such as Foreign Minister Walid Muallem and Bouthaina Shaaban, Advisor to (Hafez and) Bashar al-Assad. Designating "*persons determined to be owned or controlled by, or acting for or on behalf of, or to have provided support for the Government of Syria or any other person whose property or interest in property are blocked*" in May 2011, businessmen and financial institutions closely associated to the regime, including Muhammad Hamsho and Cham Holding controlled by Rami Makhlouf, were designated, thereby denying access to the US financial system and prohibiting American persons from engaging in transactions. In August

[24] These included General Ghazali (from June 2005), Bashar's brother-in-law and chief of military intelligence (recently deceased), Assef Shawkat (from January 2006) and business tycoon per excellence and cousin of Bashar, Rami Makhlouf (from February 2008).

Syriatel – the main mobile phone operator largely owned by Rami Makhlouf – was also designated.

Mid August 2011 saw a significant strengthening of the sanctions when the US targeted the financial institutions, oil and the entire Syrian government. The Commercial Bank of Syria and its Lebanon-based subsidiary Syrian Lebanese Commercial Bank was listed – thus intensifying existing measures – and in December, Real Estate Bank was added. The financial sector was indirectly further hit as the US went on to prohibit the exportation or re-exportation of services, sale, or supply, directly or indirectly, from the United States, or by a United States person, wherever located, of any services to Syria. As a result Visa and MasterCard blocked all transactions originating in Syria as well as transactions on accounts originating in Syria. On 30 May 2012, the US authorities further added Syrian International Islamic Bank (SIIB), Syria's largest and partially Qatari-owned bank, for serving as a front for the Commercial Bank of Syria.

Further, sanctions were imposed on the Syrian energy sector, targeting the oil and petroleum industry and prohibiting any US person from engaging in transactions or facilitation of Syrian related petroleum products and designating, amongst others, the state marketing company Sytrol and state-owned General Petroleum Corporation, responsible for the exploration, development and investment of Syria's oil and gas exploration activities.

On 23 April 2012, executive order 13606 targeted those who sold or otherwise provided goods, services or technology to Syria (or Iran) that could be used to help disrupt, monitor or track individuals through internet communications, social media and cell phones.

3.2 Sanctions imposed by League of Arab States and Turkey

At an emergency session in Cairo on 12 November 2011, eighteen member states voted for the suspension of Syria from the League of Arab States (LAS), with Syria, Lebanon and Yemen opposing and Iraq abstaining. After Syria failed to respond to its demands to admit observers to oversee the League's peace plan, on November 27 LAS levied a battery of economic sanctions on Syria in an unprecedented step. Syria's primary Arab trade partners, Iraq and Lebanon, respectively abstained and 'disassociated' themselves from the resolution. This has proven highly important, as the two countries have also rejected implementing the sanctions. Initially, the stated aim was to stop the violence and secure the release of detainees and did not call on President Assad to resign. But in January the League proposed a plan in which Assad would relinquish power and start negotiations with opponents.

The League's sanctions can be broken down into four main parts (LAS, Res. 7442): 1) Sanctions on the financial systems, including stopping of transactions with the Central Bank of Syria (including funding of any governmental commercial transactions by the Arab central banks), and the Commercial Bank of Syria and Arab central banks' monitoring of transfers (except for remittances from Syrian diaspora to relatives in Syria or transfers from citizens in Syria). 2) Cutting of Syrian government trade and financial transactions (with some exceptions) and freezing of government assets. 3) Freezing of project funding on Syrian territory by Arab countries. 4) In addition, the LAS has put a ban on entry to Arab countries and freeze of assets on individuals, decided by the Executive Technical Committee. The initial list included heads of security and intelligences agencies, two ministers (Defence and Interior), one military commander, Maher Assad, and one businessman, Rami Makhlouf. Unlike, the EU and the US, LAS' sanctions are not extended to the President himself, thus potentially allowing him to appear at meetings regionally.[25]

Turkey's increased importance in Syria's international trade over the last five years makes the Turkish sanctions important. In addition to hosting important opposition groups such as the Syrian National Council and the Free Syrian Army, Turkey has, in concert with the LAS, imposed a battery of sanctions on its former ally and important trade partner. According to Turkish government officials, Turkey has tried to differentiate between political sanctions and an economic embargo (Turkish government officials, 27 February 2012). On 30 November Turkey announced a nine-point list of sanctions, including: a travel ban and asset freeze on designated individuals, believed to be responsible for violence or giving financial support hereto, an arms embargo, a suspension of relations with the Central Bank of Syria and the Commercial Bank of Syria, freezing of government assets and suspension of credits, suspension of a credit agreement by Turkish Eximbank for financing infrastructure in Syria, and suspension of the mechanisms of the High Level Strategic Cooperation Council. Since its first meeting in October 2009, more than 60 bilateral treaties have been signed in the framework of the High Level Strategic Cooperation Council,

[25] Syria reacted strongly against the Arab League's trade sanctions. Syria's Foreign Minister Walid Moallem warned in late November that the country would consider using Syria's strategic location as a transit point for commercial traffic, including airlines crossing Syrian airspace and trucks heading from Europe and Turkey to the Persian Gulf (NY Times, 28 Nov.2011).

including cooperation on social services, supply and distribution of electricity and energy, development, establishment of a Turkish-Syrian Bank, high-speed train services etc. Less than a week later, Syria responded with a termination of the Syria–Turkish Free Trade Agreement, launched on 1 January 2007, and by imposing a tax of 30% on all Turkish goods, demanding a transit fee and an amount for fuel to compensate for the price difference between the two countries, for Turkish vehicles (SANA, 5 Dec 2011). Turkey retaliated with an equal tax on Syrian goods and furthermore barred old Syrian lorries from entering Turkish territory. Turkish government officials further claimed that Syria initially prohibited trucks from going through Syria and that Syria and Iran have put pressure on Iraq not to allow Turkish transit (Turkish government officials, 27 February 2012).

3.3 EU restrictive measures

The European Union (EU) has opted for a strategy of gradually strengthening and expanding restrictive measures following its initial arms embargo, prohibition on providing equipment or technical assistance used for internal repression, restrictions on admission to the EU and freezing of financial assets of thirteen individuals on 9 May 2011. By late July 2012, sixteen such sets of sanctions have been presented. A paper dedicated to explaining the rationale of the sanctions writes: "*Their [EU restrictive measures'] is to put pressure on those responsible for the repression and those who support this policy, depriving the Syrian regime of financial revenues and resources, which it is using to maintain its violent crackdown*" (EEAS, 9 Jan 2012), later underlining, "*The EU sanctions target the Syrian regime, not the civilian population. As long as the repression continues, to put pressure on those responsible for it*" (EEAS, 14 May 2012). As such, the stated purpose of the sanctions has been to bring the regime's violence to a halt though, from late 2011, they have also been urging President Assad to step aside.

The elaborate sanctions regime mainly targets five sectors and groups: equipment and material used for monitoring and repression; the oil and energy sector; the financial, trade and banking sector and a group of individuals and entities affiliated with regime repression.

The restrictions on export of arms, weapons, ammunition, military vehicles and equipment (and spare parts), equipment potentially used for internal repression, as well as provision of technical assistance or financial support were included from the first stages. On 1 December 2011, these were joined by prohibitions on sale, supply and/or export of equipment or software for monitoring or interception by the Syrian regime.

Invoking asset freezing and visa bans, restrictive measures are currently targeting 43 entities and 128 individuals. Initially, the sanctions targeted "*persons and entities responsible for the violent repression against the civilian population in Syria, and natural or legal persons and entities associated with them*." (Article 5[1]). However, the criteria were expanded in an amendment of 2 September 2011, now including "*persons responsible for the violent repression against the civilian population in Syria, persons and entities benefiting from or supporting the regime, or persons and entities associated with them*" (Article 1[3]). Thus, the circles of targeted segments have gradually been expanding. Three primary groups of individuals have been targeted: government officials, security and army officials and prominent businesspeople, funding the regime and the ongoing violence. The targeted entities include companies and media outlets affiliated to the listed individuals, and government agencies involved in the violence. As such, the targeting indicates that the measures have mainly been aimed at the inner circles of the military/security/ business/regime nexus, as explained above.

Initially targeting individuals heading security and intelligence agencies (and *shabihas*) that were considered directly responsible for the repression (including President Assad's Brother, Maher Bashar, Interior Minister Mohammed Ibrahim al-Chaar and close Assad associate, Business tycoon Rami Makhlouf), the President Bashar al-Assad was not listed until two weeks later (according to an EU official, in an attempt to offer Assad an 'escape hatch', EU diplomat, 7 Feb 2012) when he was added to the list alongside members of the Makhlouf family and Mohamed Hamcho, businessman and brother-in-law to Maher Assad. One month later, the list was further expanded with additional security personnel and individuals close to the Assad and Makhlouf families, allegedly funding the regime. Most notably the list was expanded with four entities linked to the Syrian Defence Ministry: the Hamcho or Makhlouf family allegedly funding the regime, and three Iranian Revolutionary Guards Corps officers for providing support and equipment to the suppression. When they were drawn up at the end of August, the sanctions were expanded from targeting individuals responsible for security and intelligence agencies to include entire government security agencies as well as the IRGC Quds Force. It was not until 27 February 2012 that seven ministers were added to the listings, only to be followed by seven colleagues one month later. On 23 March 2012 Assad's wife, mother, sister (wife of Asef Shawkat) and sister-in-law (wife of Maher al-Assad) were all designated.[26] On 26 June, long time advisor to and spokesperson for the two Assad presidents, Bouthaina Shaaban, joined them.

On 2 September the Council started targeting Syria's energy sector, banning import, purchase, transport, finance and reinsurance (and related technical or financial assistance) of crude oil or petroleum products originating in or exported from Syria. This was a highly important step, considering the EU's prominent position in Syrian oil export. Three weeks later sanctions on the Syrian oil industry were strengthened with prohibitions on investments, loans, extension of credits, acquisitions to and joint ventures with any Syrian person, entity or body engaged in the exploration, production or refining of crude oil, including Syrian–owned enterprises engaged outside Syria. (Council Decision 2011/628/CFSP OJ L247, 24/9/2011). On 23 March 2012 the Mahrukat Company, a state-owned monopoly on the distribution of all oil products, was added, and on 26 June so was Syrian Company for Oil Transport. An additional measure targeting the energy sector has been the prohibition on participating in or in any way offering technical or financial assistance in the construction of new power plants.

Restrictive measures targeting the financial and banking sector were first imposed when Real Estate Bank – the main commercial bank – was listed on 2 September 2011. On 13 October, state-owned Commercial Bank of Syria was added to the list while also prohibiting the delivery of Syrian banknotes and coins to the Central Bank of Syria. However, the most significant move came when the Central Bank of Syria was added on 27 February 2012, thus freezing its assets and prohibiting making funds or economic resources available. Further, a ban on trade in gold, precious metals and diamonds with Syrian public bodies and the central bank was imposed by the end of February 2012. In early July 2012, the EU announced that the Syrian International Islamic Bank served as a front for CBS and added the SIIB to the list.

Furthermore, a prohibition was placed on trade in Syrian public bonds to or from the government of Syria or its public bodies and Syrian financial institutions. Nor are EU member states allowed to give new grants and concessional loans to the Syrian government.

[26] The regime inner circles of officials and businessmen were arguably the intended targets when the banning of the sale, supply, transfer or export of luxury goods by vessels, from nationals of or territories of member states were announced in April 2012. These measures were announced just a few weeks after purportedly private e-mails were leaked, uncovering that Asma al-Assad had purchased a number of luxury items through online shopping.

An additional measure was applied when, on 23 May 2011, the EU froze the negotiations on the Association Agreement and suspended the preparations for new bilateral cooperation programmes and ongoing bilateral programmes under the MEDA/European Neighbourhood Policy Instrument (ENPI). On 14 November 2011 the European Investment Bank became prohibited from making any disbursement or payment in connection with the aforementioned and all Technical Assistance Service contracts were suspended, thereby suspending all its loan operations and technical assistance to Syria.

On 1 December 2011, the EU further added an elastic restriction on financial support for trade, calling on member states to "*exercise restraint*" in providing credits, guarantees, insurance or other financial support to nationals and further prohibiting long-term commitments for public or private-provided support for trade with Syria (excluding food, agricultural products, medicine or other humanitarian goods) (Art.12).

3.4 A comprehensive battery of sanctions

The battery of sanctions currently levied on Syria includes a comprehensive collection of measures that have been developed since April 2011. While the stated aim of bringing the violence to an end has been maintained throughout, the sanctions regime has increasingly turned to limiting the manoeuvre room of the regime and, in practice, to weaken it. In addition to sanctions addressing equipment and material directly used in monitoring and oppression, the international sanctions encompass three primary types of measures:

Sanctions intended to limit state revenues and access to assets. While a number of measures have been employed,[27] the most significant are, arguably, the EU sanctions on import, transport, insurance and reinsurance of transport of Syrian oil, as well as of trade with the state agency responsible for all oil distribution.

The sanctions regime furthermore comprises measures intended to limit the state's ability to perform financial transactions. Most importantly, such sanctions include suspension of relationship and transactions with state-controlled banks. The US further bans use of US currency and, in effect, transactions with American-based services such as Visa and MasterCard.

[27] For instance, on 23 July 2012 the EU designated the Cotton Marketing Organisation, thus seeking to curb access to income from sale of cotton.

In addition, a number of sanctions target individuals and affiliated entities considered directly responsible for the violence, as well as individuals and entities providing support, through asset freezes and individual visa bans. Reflecting the networks of the security and military elite, state officials and wealthy businessmen closely linked to the regime, such lists count not only state, security and military officials, but also businessmen believed to be providing financial assistance to the regime.

4. Developments in Syria since March 2011

Since the uprising erupted, Syria has experienced spiralling violence and a sharply deteriorating economy. This chapter briefly sums up the overall political and security developments in Syria since the uprising began in March 2011 before outlining in more detail the most important changes and developments in the Syrian economy.

4.1 Political and security developments

Since the first protests and demonstrations began in early 2011, the conflict has deteriorated tragically. Most international actors have thus far fallen short of labelling the crisis a civil war (at least, publicly), while President Assad himself on 26 June 2012 made no secret of the gravity of the situation, stating that the country is "*in a real state of war*" as he addressed the newly installed cabinet following the second reshuffling of the government since the conflict's eruption (SANA, 26 June 2012).

Though not exclusively, the majority of the demonstrations in the beginning were made up of peaceful popular protests against socioeconomic hardship, corruption, poor governance and brutality by the local political and security authorities and the role of the *awlad al-sultah*. Erupting in areas such as Da'ra, Deir ez-Zour and Baniyas – all areas that had been significantly neglected in the previous decade – and Homs, with its local *awlad* and suburbs swelling with migrants, the Syrian leadership responded with belated promises of reforms that, had they been timely, would likely have had some resonance amongst the protesters.[28] From the very outset, the protests were met with disproportionate repression and a brutal violence that only infuriated increasing parts of the country. As a result, the protester's demands soon went from regime reform to regime change and with time the armed opposition groups – largely composed of defected soldiers of the Syrian army – gained increasing prominence.

From January 2012 the regime shifted from pursuing a security to a military solution, resulting in increasingly intense, vicious and widespread violence, though largely compartmentalised and localised in certain areas: mainly Da'ra, Homs, Idlib

[28] These areas were in fact the same ones that the Ba'ath party had grown out of and traditionally based its assumption of power on. As International Crisis Group rightly points out: "*Ironically, the regime grew out of the very same provinces that today are rebelling against it.*" (ICG 2011: 13)

Deir ez-Zour, the outskirts of Aleppo and rural Damascus. However, by mid July heavy fighting engulfed increasing parts of Damascus and Aleppo proper and the compartmentalisation in the country became blurred.

With time, the conflict has entered a vicious spiral, growing increasingly existential and sectarian in nature. While the initial demonstration represented a broad spectrum of the demographic patchwork of Syria, Alawites and Sunnis have become increasingly pitted on either side of the conflict's fault line with violence escalating. With the regime deliberately stirring fear amongst the country's minorities for the consequences of a regime collapse, considerable parts of the Alawite population in particular feel that they are facing an existential threat and act accordingly. Fears have not been dampened by intensified sectarian and fundamentalist rhetoric and violence by parts of the opposition groups (ICG 2012b)

During the course of the conflict the Syrian opposition has experienced considerable fragmentation. Despite continuous international attempts to bring opposition groups together, the fragmentation of the opposition only seems to be increasing.

4.2 Key developments in the Syrian economy since March 2011

As a result of the unrest and the international sanctions combined, the Syrian economy has suffered a substantial downturn since the uprising erupted in March 2011 and is expected to continue its contraction through 2012. Estimates of the reduced economic activity in 2011 are contested but most accounts put it between 3.4% and 15%.[29] Though forecasts for 2012 are associated with great uncertainty, a further drop is expected of between 5.9% and 12% of GDP.[30] Equally negative developments can be felt on all parameters, including sharply rising inflation, capital flight, rising unemployment and decreasing production.

The Syrian pound has been significantly devaluated. From SYP 47 to the US dollar in March 2011, the SYP depreciated gradually to more than SYP 70 by

[29] The Economist Intelligence Unit estimates that GDP in 2011 dropped 3.4% (EIU, 2 March 2012). In-house EU calculations put the contraction to 7.3%, while independent Syrian economists estimate the contraction to be around 15% (Yazigi, 21 Feb 2012) (with some going even higher).

[30] In March, EIU expected the Syrian economy to contract 5.9% (EIU, 2 March 2012). Former Syrian Vice President for Economic Affairs and current ESCWA director, Abdallah Dardari, estimates that the economy will contract further in 2012, between 8% to 12%, depending on whether Lebanon, Iraq and Jordan maintain their current position or not (Dardari, 24 Feb 2012). Minister of Finance, Mohammad Jleilati, contradicted all the projections when he in June – optimistically to say the least– stated that he expected GDP to increase by up to 2% in 2012 (Syria Report, 19 June 2012)

early February 2012. After having remained stable through February, the Syrian currency then dropped to a record low on March 9 of 107 pounds per dollar. On 10 March 2012 the Syrian Central Bank launched a dual system by which it would trade foreign currencies with exchange companies at rates different from the official rate, the so-called 'intervention rate', much closer to and sometimes even higher than black market prices, resulting in repeated interventions of buys at several million dollars, according to media reports (Syria Report, 29 March 2012). Since the end of March (following the announcement of the Annan plan), this has helped stabilise the pound at between SYP 65–70 to the dollar, regaining some 30–35% of its worth, with the intervention price slightly higher than the official rate.[31]

During the summer of 2012 the inflation rate stabilised, by official accounts standing at 32.51% in May on an annual basis (Syria Report, 22 July 2012), after inflation began taking off in December, jumping to 11.01% in December and 15.66% in January (interview with Nabil Sukkar, 20 Feb 2012; Syria Report, 13 Feb & 4 March 2012).[32] By February, this number had reached 21.34% (Syria Report, 2 April 2012). Price increases are unevenly distributed, both geographically and across consumer items. In the YoY consumer price index from March 2012, food and beverages rose 39.3% on an annual basis followed by household equipment and supplies at 37.1%, clothes and shoes at 29.5%, housing, water and electricity at 20.2% and health at 8.0%. In May, WFP estimated that most items, including food and fuel, had risen by approximately 50% (Reuters, 8 May 2012). Price increases are reported to differ significantly on a regional basis, with Damascus proper as the least affected area (e.g. CBS 2011). Media reports and interviewees have consistently suggested that inflation rates, especially for food, could very well have increased significantly more than official rates reveal.[33] Some basic goods such as sugar, butter, vegetable oil and eggs by March had risen in price by as much as 100% (Reuters, 21 March 2012). In June 2012 FAO reported that the prices of milk, chicken and meat had risen by up to 300% in certain places (FAO 2012: 2). On 26 March, the government issued its first weekly price list (later to become published every fortnight) of key food items

[31] Despite already significant increases in prices of consumer goods, the full effect of the devaluation has most likely yet to be reflected, according to some Syrian economists. Rigidity in setting market prices in the former planned economy is expected to result in considerable price increases over the coming months as stocks of imported goods are exhausted.

[32] This jump came from an official 3.25% year on year (YoY) in October and 5.75% in November.

[33] A cost of living study conducted September–December 2011 in Damascus showed that nearly all food commodities had increased, yet inflation was mainly driven by vegetables (45.7% YoY) and fats (30.6%)(Istishari 2012: 6).

to address the increasing popular discontent with the rising prices.[34] In addition to the partial recovery of the value of the Syrian pound, this has reportedly helped cap the price increases on some basic food items, in particular price of vegetables (where observed), through the summer.

Foreign and domestic investments have been brought to a virtual standstill. Foreign investments have dried up, most importantly funding coming from the Gulf that had previously supported a number of business sectors within the Syrian economy.[35] Soon after the uprising erupted Syrians with savings invested in foreign currency (especially in the beginning), placed cash and valuables outside Syria (especially in safe deposit boxes in Lebanon, thus keeping them away from Syrian or international scrutiny), or investing in gold and real estate (interview with Yazigi, 21 Feb 2012).[36] Deposits fell by an average of 35% in 2011 in three major private banks,[37] while total assets of the private banks are believed to have declined 13.5% YoY (EIU, 2 March 2012: 13; Syria Report, 20 February 2012).[38] Except for short-term credit facilities, banks have stopped almost all types of loans, obstructing investment and consumption (Syria Report 7 May (a), 2012). According to EIU estimates, private domestic consumption dropped 3% in 2011 and is expected to drop an additional 5% in 2012 (EUI, March 2012). With the domestic consumer demand for high-end products plummeting, Syrian import of non-essential commodities has reportedly dropped 70%.

In the absence of public data, widespread speculation continues on the size and development of the foreign currency reserves.[39] The Central Bank's attempt to defend

[34] The list includes 21 basic food items such as eggs, chicken, powdered milk, chickpeas, vegetable oil, lentils and beans, rice, flour, sugar, tea and coffee (Syria Report, 2 April 2012)

[35] Foreign direct investments in 2011 fell 42% according UNCTAD (Syria Report, 9 July 2012). The decline has further materialised in an 84% YoY drop in investment projects licensed by the Syrian Investment Agency in manufacturing, transport and agriculture (Syria Report 7 May 2012). SIA grants licenses to investors that wish to benefit from opportunities provided in the investment law. The agency covers three main areas: manufacturing, transport and agriculture, while it does not include tourism, financial services, oil and gas and real estate.

[36] The real estate sector boomed following the beginning of the uprising (thus causing increased demand and prices for steel and cement), especially in April–May, but activity fell subsequently. In parts of the country, the construction boom is reportedly continuing (Reuters, 21 March 2012).

[37] These include Bank of Syria & Overseas, Bank Audi Syria, and Banque Bemo Saudi Fransi (BusinessWeek, May 2012). A CEO of a major private bank in Syria, estimated in May 2011 that depositors withdrew SYP 32 billion from private banks (around 7% of all deposits in private banks) in the first two months alone (Syria Report, 23 May 2011).

[38] Mid December, Syrian authorities tried to halt the drain of liquidity from the banking system by pushing up the deposit rates from 5–9% to between 9 and 11%.

[39] In April French Foreign Minister Alain Juppé claimed that the Syria's foreign currency reserves had fallen by half since the beginning of the uprising in March 2011. Reuters claimed later that Syria had begun selling gold from the country's total gold reserves worth around $1.36 billion at spot prices (Reuters, 18 April 2012), a claim that was refused by Adib Mayaleh, Governor of the Central Bank and Minister of Finance al-Jleilati (SANA, 24 May [a], 2012)

the SYP in late 2011 and lack of sources to obtain foreign currency have led some observers to estimate (or more accurately 'guestimate') that the foreign currency reserve has shrunk to somewhere between about USD 7–10 billion to USD 14–15 billion (EIU, 13 March 2012; interview with Nabil Sukkar, 20 Feb 2012) from the (estimated) USD 17–18 billion available at the outbreak of the unrest.[40] However, such estimates remain unsubstantiated. There are indications that on at least one occasion Syria has paid for imports in kind, which could be interpreted as a sign of exhausted reserves or at least efforts to protect the existing level.[41]

The unrest and overall economic downturn are believed to have affected most business sectors, though in particular transport, tourism, retail and energy. Tourism, as well as those economic activities related to it, plummeted soon after the uprising began.[42] Accounting for some 12% of the GDP in 2010, this alone has resulted in an estimated USD 1 billion loss (Saif 2012) and hampered an important source of foreign currency earnings.

The agricultural sector experienced growth of 13.7% in 2011, according to EU estimates, due to favourable rainfall following years of drought. However, the agricultural sector in 2012 is expected to have been negatively affected by: farmers' participation in the struggle; lack of grazing opportunities for livestock (and, according to ICG, a deliberate and widespread use of burning of crops in the regime's scorched earth policy [ICG 2012b: 31n]) taking place in rural areas, namely the fertile provinces of Deir ez-Zour and Da'ra, ruining the fields and hindering re-sowing and causing difficulties in transport of in and output.[43] These are areas which have also

[40] Contradictory reports have been heard from the Central Bank Governor on these matters. In May 2012 he released press statements saying that the foreign assets held by his institution had remained intact. However, in August 2011 the Governor announced that USD 2 billion had been spent on defending the SYP – although from an unknown special fund dedicated to the defence of the currency – and later that some additional USD 1.8 billion had been spent to finance the cost of imports. (Syria Report, 14 May 2012)

[41] On 24 May Reuters reported that a Venezuelan oil tanker was returning to Venezuela from Syria with a cargo of naphtha as payment for delivering diesel (Reuters, 24 May 2012)

[42] According to Ministry of Tourism statistics, the drop manifested itself in a 79% overall decrease in tourist arrivals in the first four months of the year (Syria Report, 4 June 2012).

[43] An illustrative example is that of the poultry sector. It represents a significant part of the economy in several rural areas of the country, especially the governorates of Homs, Hama and Rural Damascus and in 2011 was responsible for the production about 3.5 billion eggs (of which 35% are exported with Iraq as the main market), and 200,000 tons of chicken meat. The sector is by some estimates believed to provide a livelihood for up to 1 million people (Syria Report, 16 Feb 2012). However, the sector has been affected by a number of factors. Most farms are located in the hotbeds of the uprising, directly affecting the production and distribution. Input prices in particular for imported products such as corn and soybean, have risen, as has the cost of the petroleum coke used for heating. This has led to a steep increase in prices of eggs and chicken on the local markets. Eggs and chicken had been an affordable source of protein.

struggled with reduced rainfall and Syria's essential wheat crop as well as its barley crop is expected to perform significantly less than anticipated.[44] In June 2012, the UN Food and Agriculture Organisation (FAO) estimated that the agricultural sector as a whole had lost nearly USD 1.8 billion in 2012, the livestock sector suffering from more than USD 971 million in losses, while crops have suffered from USD 790 million in losses (FAO 2012).

During the conflict, unemployment has inclined steeply as a result of combined factors such as the economic downturn, power shortages, fuel price hikes and the unsafe security situation. Estimates vary significantly. In a rare statement on the economy, Minster of Finance Jleilati said that the rate of unemployment had risen from 12% to 25% (Syria Report 19 June 2012). Other sources with fewer vested interests already argued in February 2012 that the unemployment rate had reached some 30% (EU diplomat, 20 Feb).

Syria has suffered from widespread and acute shortages of fuel, heating oil, electricity and to some extent cooking oil. While the official price of fuel remains subsidised, actual costs have at times reportedly risen to more than three times the fixed price because of shortages. This has added significantly to the overall price increase. As consumers in late 2011 shifted from using heating oil, which was in shortage, extensive power cuts became widespread with power cuts of several hours (9–12 hours in some areas) daily throughout the country (though Damascus to a lesser extent), with difficulties being compounded by one of the harshest winters in recent years. The milder temperatures of the spring helped reduce demand, resulting in shorter power cuts of 1–2 hours a day in Damascus, and a little more in other parts of the country.[45] However, as temperatures increased through the summer so did the demand for electricity, resulting in increased power outages.[46] Power cuts have affected the business sector significantly, resulted in significant loss of working hours and inability to produce, thus resulting in a decrease in production.[47]

[44] With its 3.7 million tons the wheat harvest is expected to fall 0.5 million tonnes short of the planned level while barley has only reached 50% of the expected amount. The ministry cites low rainfall levels in the areas of cultivation as the main reason. (Syria Report, 27 May 2012)

[45] According to Syria Report, in early April power was cut for 3 to 4 hours a day in central Damascus down from the 6 hour cuts of ten days before, while in the Damascus suburbs electricity was off for around 6 hours a day from the 8 previously (Syria Report, 5 April 2012).

[46] Starting July 2, the Ministry of Electricity increased power outages in Damascus to 3 hours per day from 2 hours previously. In Aleppo, the country's second largest city, power cuts were being increased from 3 to 4 hours a day, while in the rest of the country, power cuts were increasing to 5 hours a day (Syria Report, 9 July 2012),

[47] In January, the Minister of Electricity said that power outages had cost the economy SYP 23 billion (Syria Report, 22 Jan 2012)

With imports making up around half of total domestic consumption, Syria experienced severe cooking gas shortages at the end of 2011. The government managed to resume supplies at the beginning of 2012 but by May the government again faced increasing difficulties in meeting the demand. The Syrian government has counter this by raising its cost by some 16% and, in mid June, began reducing the average weight of the cooking gas cylinders while keeping these prices unchanged (Syria Report 11 June 2012).

A significant number of businesspeople have closed their businesses, though few aggregated data are available (EU diplomat, 23 February 2012; interveiw, Yazigi, 21 Feb 2012). A member of the pro-regime Damascus Chamber of Commerce claimed, in August 2012, that 30% of small and medium-sized businesses have closed since the uprising began, an estimate that should, however, been taken with a grain of salt (Naharnet, 2 Aug 2012). With violence reaching deep into the industrial cities of Aleppo and Deir ez-Zour, and not least their suburbs, by the summer of 2012 production had reportedly suffered substantially. Syrian news reports in mid August 2012 said that nearly all of the 621 plants – at the end of 2011 employing some 41,000 workers – had stopped production because of the rising insecurity (Syria Report, 13 Aug 2012).

Thus, the Syrian economy has been severely hit by the direct and indirect effects, including those of international sanctions, of the conflict. As the conflict has become prolonged, the economy has gradually deteriorated with vital economic sectors suffering, dwindling production, high inflation rates and a virtual halt of investments.

5. The economic, institutional, socioeconomic and political impact of the international sanctions

The elaborate battery of international sanctions is deeply affecting Syrian society and its leadership. This chapter in turn explores the sanctions' impact on the economy, the civilian and security institutional infrastructures respectively, the socioeconomic impact on the population and the sanctions' impact on the power structures supporting the regime.

5.1 Impact on the Syrian economy

The impact of the restrictive measures and sanctions on the Syrian economy has been substantial. The sanctions have effectively hindered the Syrian state's ability to obtain revenues and foreign currency and may have limited the sources of income for businesspeople closely affiliated to the regime. However, the sanctions have also proven to have significant negative effects on the private sector economy, unrelated to the regime.

5.1.1 Impact on the Syrian state, regime and targeted individuals

The international sanctions have significantly curtailed Syrian state revenues. Previously a vital source of state revenues, the EU's prohibitions on import of Syrian oil, transport, insurance and reinsurance of Syrian oil products have proven effective. On 24 May 2012, the Syrian Minister of Petroleum and Mineral Resources Sufian al-Allaw estimated that the sanctions imposed on the Syrian oil sector had cost Syria around USD 4 billion since September 2011 (SANA, 24 May 2012).[48] Oil production is reduced significantly due to the export barriers. Production by the Syrian Petroleum Company had, by January, decreased from the pre-crisis level of 380,000 b/d to 270,000 b/d (equalling a 29% drop) according to official figures, equivalent to the amount of the oil production exceeding the national refining capacity (SANA, Jan 2012). However, most observers put the production even lower, at around 180,000 to 200,000 b/d (Sukkar, 20 Feb 2012; Syria Report, 6 Aug 2012). Major international oil operators, responsible for around 2/3 of the total production, have announced their withdrawal or suspension of activity from the Syrian market in compliance with

[48] Earlier in May Mr Allaw had stated that that the country's loss from the sanctions reached around USD 3 billion (Syria Report, 7 May (b), 2012). In January, he claimed that the loss thus far equalled USD 2 billion (SANA, 21 Jan 2012)

sanctions imposed by their countries of origin (or due to the deteriorating security situation).[49] Bans on transport, insurance and reinsurance of transport are believed to have been highly effective in preventing the Syrian authorities from finding alternative third party buyers for their oil-related products, as most international shipping companies refuse to ship Syrian oil, due to their inability to find insurance and reinsurance for their cargo (interview with Yazigi, 21 Feb 2012; EU diplomat, 23 Feb 2012). Not only does Syria, according to EU sources, lack experience in oil trading, the country has no tankers of its own.[50]

At the time of writing, a handful of shipments of crude oil are known to been shipped from Syria. Concerns that Indian or Chinese clients would step in as alternative buyers have thus far not been realised, arguably due to considerable political pressure and the difficulties and costs associated with transporting the relatively low quality products. While light crude and refined oil was previously provided by Europe, Venezuela and Russia are believed by observers to have stepped in to help domestic refining. Negotiations on Syrian crude in exchange for oil derivatives and gas were in addition confirmed in May. In August the Syrian Minister of Oil, Said Huneidi announced that Syria will trade its crude for Russian refined products, in particular gasoline and fuel oil, without disclosing the volumes involved nor when the agreement will enter into force (Syria Today, 6 Aug 2012).[51]

The sanctions on the Central Bank of Syria, Real Estate Bank and Commercial Bank of Syria and the US banning of the use of dollars have furthermore severed the Syrian state's ability to perform international transactions and thus obtain international currency and export income. However, it should be noted that although the sanctions

[49] These include Royal Dutch Shell – the main producer outside the government sector – Total E&P, Suncor Energy, Gulfsands and Kulczyk Oil, Tatneft, and INA Naftaplin (Syria Report, March 5 2012). According to Nabil Sukkar (Feb 20, 2012), there is an ongoing internal government discussion on whether the government has the right to produce in the fields in which the international companies have suspended their production. Russian companies, mostly present in Syria's oil and gas industry and construction, have interrupted operations in Syria, citing security as the reason (see Reuters 23 Dec 2011)

[50] On 14 August 2012, the Wall Street Journal ran a noteworthy report claiming to be based on Syrian government documents and correspondence between March and early July between four officials: the Central Bank Governor, the Ministers of Oil and Finance and the Head of the State Oil-marketing Company in charge of selling Syrian oil, Sytrol. The report claimed that Sytrol had so far in 2012 secured eleven contracts to sell oil and had secured deals to import half the diesel that Syria is projected to need each year. Furthermore, the report revealed that offshore companies were being explored as an option and also to load Syrian oil onto leased tankers from Singapore and Russian-owned tankers based in the Black Sea. (WSJ, 14 Aug 2012).

[51] Following a meeting of the Syrian–Russian Joint Committee for Scientific, Technical, Commercial and Economic Cooperation in Moscow in late May 2012, the Russian Deputy Prime Minister Alexander Khloponin said that the barter of Syrian crude in exchange of Russian oil derivatives and gas and the development of various projects in Syria by Russian companies, including power plants were discussed. (Syria Report, 4 June [a], 2012)

have severely hampered the regime's access to perform international transactions, including gaining export income, the sanctions have not eliminated access altogether. The regime has for example bypassed the sanctions by setting up corresponding accounts with Russian banks (Syria Report, 27 Feb 2012).[52]

Contributing to the downturn in economy in general and in export in particular, the sanctions are expected to have an indirect negative effect on the Syrian state's revenues from tax and customs.[53] The 2012 budget revealed that authorities expected tax collection to decline by 25% to SYP 242 billion (Syria Report, 9 Jan 2012).[54] An economics expert at Damascus University – already in December 2011 and thus before violence intensified around the year's end – estimated that tax income in 2012 would drop by 50% (Syria Comment, 29 December, 2011). Unprecedented efforts to collect payment of electricity bills by the authorities in May 2012 could arguably be seen as an indication of the increasing need to gather all resources available (ICG 2012b: 31n).[55] As a result there is little doubt that the sanctions have had a major impact on the government's fiscal manoeuvre room.

The overall impact of the international sanctions on businessmen financially supporting the regime has been ambiguous. While the practice of targeting specific individuals itself has been lauded, the listings of individuals and entities initially created great anxiety amongst the Syrian business community. Many were left with an impression of arbitrariness in who was listed and who was not, and criticised the lack of detailed information on listing criteria and imprecise information in the listings (EU sources, 19 Feb & 23 Feb 2012; Yazigi, 21 Feb 2012). A number of listed individuals have launched complaints and legal proceedings against the European Council. Verdicts in favour of Hafez Makhlouf and the delisting of Greiwati have not helped to reduce such impressions of randomness (Syria Report, 28 Feb 2012).[56]

[52] Three banks were identified: VTB, VEB and Gazprombank.

[53] Despite the later years' improvements in tax collection measures, the authorities' ability to collect taxes is further expected to have significantly decreased due to the security situation in some areas.

[54] Surprisingly, tax collection in Damascus allegedly rose by 11% in the first eleven months of 2011. However, there is reason to believe that this was exclusively a Damascene phenomenon and, further, that it will be difficult to maintain.

[55] Amongst others, there are reports that in parts of the country people have been demanded to present receipts for paid bills in order to cross security checkpoints.

[56] On 27 February 2012 Imad Greiwati became the first individual to be delisted, despite being a well-known member of the new entrepreneurial class. Imad Greiwati is (part) owner of the Greiwati group that is exclusive agent for several foreign car companies and manufacturing companies and banks in Syria. Known in Syria as 'Mr Electricity', the primary business has however been manufacturing and import of electricity and telephone cables. He was made President of the newly established Chamber of Industry in 2006.

The sanctions have not (yet) resulted in any of the listed individuals publicly changing allegiance, or leaving.[57] Some listed individuals have – at least publicly – framed their appearance on the list as 'a badge of honour', while opposition figures have used the list as a proof of them being accomplice with the regime and subjected the listed individuals to threats. There are several examples of listed individuals resigning and of members of boards resigning from listed companies,[58] while international companies, such as Gulfsands, have felt compelled to clarify their ties to listed individuals (Syria Report, 29 August 2011).

Though the sanctions have certainly had symbolic value and have limited the listed individuals' international manoeuvre room, it is unclear to what extent the sanctions have had a direct substantial financial impact on the sanctioned individuals and privately-owned entities.[59] At least in some cases, such as Syriatel where 50% of the profits go directly to the state, the impact is likely to be manageable as international exchange is limited (EU official, 23 Feb). However, many of the *awlad al-sultah* have been engaged and prospered in sectors of non-essential goods, telecoms, chemicals and tourism. These sectors have been hit hard by the downturn in the economy. This is for example the case with car sales. With *awlad al-sultah* controlling car dealerships, the significant decline in sales of new cars, in Damascus 51% in 2011 compared to 2010, has significant repercussions on revenues (Syria Report, 7 May (a) 2012). However, the net impact on the financial elite with close ties to the political leadership is likely to have been cushioned. Many observers believe that the financial elite around the regime anticipated the sanctions and were able to diversify their funds and locate them in secure places (Yazigi, 21 Feb 2012). In addition, reports suggest that the well-connected, wealthy, inner business circles are exploiting and benefitting from the new business opportunities arising from the crisis and the sanctions (Der Spiegel Online International, 6 June 2012; ICG 2012b: 32). With considerable foreign currency assets established before the crisis, they have not only been able to benefit from the devaluation but are also likely to have established themselves as significant players in the emerging informal economy, the so-called *tijar al-azma*, the 'traders of the

[57] No information is available to suggest to what extent the listings might potentially have deterred some from engaging further with the regime.

[58] These include Mehran Kwanada, Ihab Makhlouf, Issam Anbouba, Nizar Assaad, Samir Hassan, and Ihab Makhlouf (Syria Report, 30 January 2012). Rami Makhlouf in mid June 2011 announced that he would quit the world of business altogether to dedicate himself to charity work (there have not, however, been any reports about sales of his stakes in various companies (Syria Report, 20 June 2011)

[59] Very few data are available specifying the amount of assets actually implemented. However, on 4 June 2012 Swiss authorities announced that some USD 72.5 million, belonging to "members of President Bashar al-Assad's regime" had been frozen (The Local, 4 June)

crisis' (EU diplomat, 20 June 2012). Having the necessary cash flow and networks, these are likely to be exploiting the black market opportunities that have arisen with the limited supply of diesel, heating and cooking oil, gas, and also engaging in smuggling and weapons sales.[60] As such, the sanctions may potentially have helped create and cement a chaotic financial environment where individuals close to the regime benefit significantly from continued violence, as argued by International Crisis Group (ICG 2012a: 32)

5.1.2 Economic coping strategies in a slow government response

The Syrian government has been unable to identify an effective response to the substantial economic challenges facing it. The government has failed to present a comprehensive, revised economic plan to meet the altered conditions and challenges that the country's economy is facing. In its somewhat fumbling, uncoordinated and faltering response, the Syrian government has tried to control damage by rolling back its economic reforms in favour of a return to a protectionist policy of price control and traditional business sectors (EUI 2012: 5; Sukkar, 20 Feb 2012).[61]

At the outset of the crisis, the government opted for highly excessive public expenditure. In addition to the escalated military spending, the government announced 25% decrease in the price of *mazout*, gas oil, from 20 to 15 pounds per litre only a few weeks after the first protests erupted in Dar'a in March 2011, a postponement of the 53% increase in the price of fuel oil that was scheduled to take place in April while, in addition, increasing public salaries by 20–30%. Taking up about a quarter of the overall government spending, subsidies have for years been weighing on the Syrian budget.[62] While the 2010 budget saw a moderate tightening of the fiscal position, mainly due to increasing oil prices and added revenues from their extraction, EIU estimated that the increased public spending led to a fiscal deficit in 2011 of 11.5%, compared to a budget deficit of 5.8% of GDP. Formally, the state's 2012 budget was significantly expanded. Its entire 58% rise represented current expenditures. Going up 109%, running expenses amount to a budgeted SYP 951 billion while investment allocations were down 1.3%, at SYP 375 billion.

[60] The real estate market is reportedly another preferred sector among these businessmen.

[61] The lack of coordination and was exemplified by the reversal of the ban on imports of goods with customs tariffs above 5% in December. The lack of a uniform and clear economic policy has provoked harsh criticism against the Governor of the Central Bank and Minister of the Economy.

[62] In January, Minister Sufian Allaw claimed that Mahrukat lost SYP 260 billion last year because almost all its products are sold at a loss. In addition to this figure, some SYP 200 billion worth of fuel oil was also distributed to state-owned power plants and not paid for, raising the total bill for oil subsidies to around SYP 460 billion or some USD 8 billion (Syria Report, 30 January 2012).

Much of the increased public spending (or announced, rather than actual public spending) and alterations of customs regulations were designed to cater to the traditional production and export sectors of agriculture and textile and furniture manufacturing. After several years of drought and political neglect, the government announced several measures to help improve the living and working conditions of farmers and traditional manufacturing industries with protectionist measures.[63] In September 2011, a legislative decree cancelled interest and fines on late loans offered to farmers for cultivation purposes and ensured that the Agricultural Cooperative Bank provides farmers with all their requirements for agricultural production, benefitting both agriculture and the textile industries. The Government has further pledged SYP 1.8 billion in aid for gas oil needed for irrigation in cotton production, reversing the latter years' attempt to limit output of the water-thirsty crop because of the drought. An additional SYP 8.8 billion is promised to the Cotton Marketing Organisation to compensate for the difference between the price paid by the state institution to farmers to purchase their crop and the sale price of cotton (Syria Report, 2 Feb 2012). Disregarding whether the government will in fact (be able to) honour its pledges or not, such policy arguably reflects not only an appeasement strategy targeting potentially significant elite segments (see below), but may also be seen as an attempt to reconfigure the Syrian production apparatus to meet an altered export structure, in which agricultural and textile exports are most likely to play a much bigger role as oil-related productions are sanctioned, reflecting a reshuffling of the international trading partners available to Syria. However, attempts to nurture the manufacturing industries were undercut by a significant increase in the price of electricity for industrialists, as argued below.

The fiscal constraints facing the Syrian government as a result of the crisis and international sanctions combined have become evident over the last six months. The government has, in 2012, been unable to sustain the high subsidy level and has had to cut its running costs as much as possible. A few weeks before the turn of 2011, state institutions and companies reduced 25% all their overhead expenses, excluding

[63] These measures included a decline in the retail price of gas oil that is used to fuel agricultural equipment, rescheduling of debts, an easing of access to loans, rise in the procurement prices of crops and the setting up of a fund to help drought-affected farmers in the future. In February 2012 the government disbursed SYP 13.5 billion to farmers for the purchase of agricultural inputs through the Agricultural Support Fund. (Syria Report, 2 Feb 2012). Originally established in 2008 to help farmers cope with the then increase in price of gas oil and fertilisers and replace all forms of government subsidies to agriculture, ASF has maintained providing aid, including the purchase by the Government from farmers of the crops it deems strategic such as wheat, barley, cotton and sugar, at rates above world levels. The SYP 13.5 billion are, however, also dedicated to non-strategic crops such as olives, citrus fruits and vegetables. In early January, the Ministry of Economics banned all imports of wooden furniture that contain less than 70% of beech wood.

salaries (Yazigi, 21 Feb 2012; Syria Report, 26 Dec 2011). In May – only one year after having reduced the price of gas oil (*mazout*) the prices were increased by 33% only to take another 15% hike in mid July (Syria Report, 16 July 2012). In May the price of electricity for industrial and commercial use was also increased by some two-thirds (Syria Report, 21 May (a) 2012). In the middle of May 2012, the government raised electricity prices for industrial and commercial concerns in order to reduce the subsidies bill (Syria Report, 14 May 2012). In effect, the government has now suspended almost all large investment projects and reduced its current expenditures to a strict minimum. Despite fiscal challenges, the government in March launched a return to the price control practices of the past in an attempt to curb the growing popular dissatisfaction over the massive increase in consumer prices. On 19 March the Minister of Economy, Nidal al-Shaar, announced a list of compulsory prices for key commodities as mentioned above, thus adding to similar steps to limit the free market in 2011 (Syria Report, 19 March 2012a).[64]

In an attempt to – at least partly – make up for the loss of export revenues, market opportunities have been sought in the East. Neighbouring Lebanon and Iraq have declined to follow the Arab League sanctions, thus keeping doors open for Syrian exports to and through its neighbours in a 'Looking East' campaign, launched by the government, focusing on Iran and Iraq. Already being the biggest single export market, taking more than 30% of Syrian total export in 2010, Iraq's increasingly important role as an export market for Syria's trade was being stressed. At the end of 2011 and beginning of 2012, Baghdad – allegedly strongly encouraged by Teheran – hosted several Syrian delegations of government officials and businessmen to discuss closer economic ties with Iraq, including the construction of a gas pipeline that would run from Iran through Iraq to Syria.[65] In addition, Syrian goods have been exempted from Iraqi quality standards to help Syrian products gain ground on the Iraqi market (EU diplomat).[66] With massive fighting engulfing the border

[64] The price would, according to Mr Shaar, take into account the costs of production, the foreign exchange rate, the cost differentials between different governorates across the country and a 'reasonable' profit margin for traders, established by a committee with representatives from the Government and the private sector.

[65] The Syrian privately-owned, yet close to the regime, al-Watan daily reported that daily Syrian exports were planned to exceed USD 20 million, taking the majority of Syria's overall industrial production, mainly pharmaceuticals, textiles and agriculture. In exchange for these economic lifelines, Damascus would allegedly support al-Maliki and there have been reports of the extradition of former Iraqi officials from the Saddam Hussein regime who had taken refuge in Syria. In addition the anti-Maliki TV station al-Raai, which had been airing from Syria, was shut down in December 2011 (Syria Today, Feb 2012).

[66] Though intended to boost Syrian goods, exporting the low quality products may very well turn into a boomerang in the longer run as Iraqi consumers will start to associate Syrian products with low quality and thus disregard them.

area and Free Syrian Army's reported takeover of several border crossings into Iraq in July 2012, the government's ambitions for increasing trade with Iraq have been severely hampered.

While being a long time political ally, Iran has traditionally played a minor role in the Syrian economy. In 2010 Iran was merely Syria's 25th biggest export market (0.2% of Syrian export or about USD 15 million). However, efforts are being made to alter this with improved trade conditions and contracts. In addition to the abovementioned talks on pipeline construction, in mid December 2011 Syrian and Iranian officials settled on agreements on some 60 Syrian products in several fields including transport, tourism, housing, promotion of products and holding expos, in addition to providing preferential benefits allegedly valued at USD 2 billion to Syrian goods exported to Iran. (SANA, 15 Dec 2011).[67] Furthermore, a bilateral preferential agreement (signed in 2010) started applying on 21 March, reducing customs tariffs declining by 20% per year over the next five years from their current rates (Syria Report, 22 Feb 2012).[68]

However, despite the fact that the devaluation has made Syrian goods more competitive in neighbouring markets, it is unlikely that increased export to Iraq and Iran will significantly compensate for the lost oil export revenues, especially on a short or middle-term basis (Yazigi, 21 Feb 2012). Building oil pipelines to Iran will not only require substantial investments (and improved security), but also take five to ten years (Yazigi, 21 Feb 2012). Despite its increased competitiveness, the Iraqi market of more than 30 million people will only be able to absorb so much of Syrian non-oil commodities, industrial and agricultural produce. Lack of business-to-business networks between Syria and Iran as well as a high degree of scepticism about the quality of Syrian goods in Iran make the prospects of substantially increasing exports rather unconvincing.

The direct, negative impact of the armed conflict on agricultural and manufacturing production will also cap the ability to export agricultural commodities. One of the

[67] According to SANA, Iranian Minister of Transportation and Urban Development Ali Nikzad further affirmed that his country will continue to cooperate with Syria in the fields of banking, industry, agriculture, transport, tourism, health, pharmaceuticals, free trade and exhibitions, in addition to cooperation in the fields of advanced technology such as nanotechnology

[68] One example of a potentially significant contract signing could be that between state-owned General Organisation for Textile Industry and an Iranian company to export around USD 30 million worth of yarns (The Syria Report, 19 March 2012). Not only would the deal – if realised – represent three times Syria's 2010 exports to Iran, it would also breathe air into an organisation and industry that has experienced million dollar losses in recent years. In mid March MAPNA, an Iranian company, won a contract for a 470 MW CCP plant in Suweida, the first contract for a new power project since the uprising began (Syria Report, 12 March 2012)

most important agricultural sectors for export is the poultry sector, which has, however, been significantly negatively affected both by the violence (as most farms are located in violence-ridden rural areas) and by the devaluation as production costs have increased (due to significant price rising including, for example, the imported soy beans for feeding). Furthermore, wheat export had by February reportedly been stopped or at least reduced substantially in order not to risk future shortage (Yazigi, 21 Feb 2012). In addition to the challenges to cotton production presented by the lack of security, the sanctions by EU on the state-owned Cotton Marketing Organisation are likely to further damage the Syrian authorities' ability to gain any substantial revenues from cotton trade. Despite efforts to increase industrial production and manufacturing, the ability to meet the levels of production required to substantially relieve the receding export revenues will be curbed by continuing power cuts, lack of security, an increasing crime rate and insecurity, weakening supply networks and the departure of businesspeople. Basically, there will be little produce to export.

Thus, it is unlikely that the Syrian government will be able to fulfil ambitions of covering the lacking revenues through export to the Iranian and Iraqi markets. This leaves the Syrian state with few opportunities for income in the formal sector.

5.1.3 Economic impacts beyond the regime and awlad al-sultah

The sanctions have had significant economic repercussions beyond the regime and listed individuals. In particular, the EU and US sanctions on the financial sector have had notable ramifications.

The broad US sanctions on the financial sector, banning dollar transactions and a general ban on providing services – causing Visa and MasterCard to withdraw – have had a widespread impact. Despite a number of 'general licenses' (exemptions), the ban on transactions in US dollars has reportedly meant that it has become nearly impossible to perform financial transactions through, to and from Syria using international and regional banks. International and regional financial institutions have further been highly reluctant to service Syrian nationals, in order to pre-empt any breach of the sanctions, thus over-complying with the sanctions. Out of fear of getting entangled in international sanctions, most financial institutions have opted to largely shy away from almost all Syrians, thus complicating any international transaction. As a result all citizens with bank accounts and credit cards, including businessmen regardless of their affiliation with the regime, are faced with significant difficulties doing international transactions. As all types of international transactions have been affected, transactions of food and medical items to Syria have also been affected (EU diplomat, 15 May 2012; Syria Report, 4 June 2012).[69] This includes essential basic staples such as wheat, of which about half of the national consumption is imported.[70] As such, the technical difficulties of performing international transactions, as a combined effect of the compliance and the over-compliance with the sanctions, have indirectly hampered import of such items, despite their being explicitly exempted from international sanctions. Prevented from access to Lebanese banks, Syrian businesses have further found it increasingly difficult to gain credit, thus limiting any investments.

The sanctions on the financial sector are further believed to have had a significant negative effect on transfer of remittances from Syrian diaspora to relatives in Syria, most significantly from the Gulf States where the Central Bank no longer holds accounts (Sukkar, 20 Feb 2012). The US bans on dealings with dollars, prohibitions on providing services in Syria and sanctions on the Central Bank constitute major obstacles to the transferring of remittances which, under normal circumstances, have been between USD 0.8 billion and USD 3 billion. Remittances and other forms of financial support to families and relatives now often depend on transport of hard cash across the borders and unsafe zones.

Observers argue that the impact on the Syrian business community has been partly cushioned by revitalisation of the pre-existing informal sector and traditional lending and transaction structures. Having lived and worked without private banks in Syria until 2004, the elaborate informal economy structures have been revitalised. Reportedly this has involved informal structures amongst the traditional merchants in the *souqs*.[71] However, traders have, first and foremost, gone through bank accounts in other countries, especially Lebanon and to a growing degree Iraq.[72] As mentioned above, doing so has become increasingly more challenging and often involves a local 'straw man', thus requiring networking and a relatively elaborate infrastructure.

[69] On 3 June Minister of Health, Wael al-Halqi, blamed shortages on certain medicines.

[70] The United Nations Food and Agriculture Organisation estimated in April that Syria's cereal import needs in 2011–12 would rise to four million tonnes, one million tonnes higher than the previous year. The International Grains Council has predicted Syria will need to import 900,000 tonnes of wheat in 2011–12, up from 500,000 tonnes in 2010–11. (Reuters, 8 May 2012)

[71] These have to a high degree depended on networks of finance independent of the banks (both for practical and religious reasons). Often based on what are called 'circular accounts', workshops and merchants networks are providing both credit and supply and thus they have a high degree of interdependence outside the banking sector (Ismail 2009: 25).

[72] Syrians using Lebanese banks are not a new phenomenon. Since the Syrian nationalisation of banks in the 1950s Syrian merchants and others have often entrusted their assets to Lebanon's financial institutions, including the sizable banking zone in Chtura near the border, which caters to many Syrians.

Drawing from past experience, the trader's revitalisation of informal networks of the past assures great resilience but also adds significantly to transaction costs, thus adding to the overall inflation

The international sanctions have contributed to the inflation rate in Syria. While disrupted production, supply and distribution lines caused by the unrest are important drivers in the inflation, the second order effects of the sanctions should not be disregarded. In addition to the abovementioned factors of increasing transaction costs, the sanctions are likely to have been a factor in the energy shortage experienced, as explained below, leading to increased production and transportation costs. Punitive measures levied on Syria have further limited the ability to gain credits and loans on the international markets and reduced the international market's trust in Syrian currency, which in turn has depreciated the currency, thus raising the cost of imported goods on the Syrian market (interview with Yazigi, 21 Feb 2012; Saif 2012).[73]

However, the EU ban on banknote printing – which was previously done primarily in Germany, Austria and Belgium – may potentially have countered even higher inflation rates. While other direct, short-term impacts in terms of capping the Syrian authority's control of its monetary policy are likely to be negligible,[74] the ban on printing of banknotes has hampered the Syrian government's ability to cover increased public expenditure by letting the money printing presses roll.[75] Ongoing discussions on printing money in Russia have been announced (Syria Report, 4 June [a] 2012). Nevertheless, this sanction has significantly curbed the Syrian authority's control over its monetary policy.

EU sanctions on the Syrian energy sector, in concert with sanctions on the financial sector, have hampered Syria's ability to meet the domestic demand for cooking oil, heating oil, gas and diesel, and are thus a factor behind shortage of these goods. Though there are no formal sanctions banning the sale of oil derivatives to Syrian nationals, sanctions on dealing with the country's banking sector, on Syrian state-owned oil companies, on transport of energy products and a ban on the dealings with the state agency responsible for the distribution of energy products in the

[73] The close correlation between the devaluation and the sanctions was reflected in the more than 50% drop that the SYP experienced in the week that followed the EU listing of the Central Bank on 28 February 2012.

[74] An EU diplomat explained that their research had suggested that the most fragile type of banknote could be expected to have a lifetime of at least three years. Any significant direct contractive impact on the money stock can therefore not be expected in the short run. (EU diplomat, 23 Feb 2012)

[75] Following press reports claiming that Syria was printing money to finance its deficit, the Governor of the Central Bank Adib Mayaleh explicitly denied such activity (Syria Report, 18 June 2012).

country, *Mahrukat*, have discouraged most leading energy traders in the world from dealing with the Syrian authorities. Furthermore, restrictions on the banking sector have created severe limitations on opening letters of credit for import. In mid June 2012, the government disregarded the privilege of state owned entities to energy import and authorised private sector manufacturers to import gas for own use (Syria Report, 18 June 2012). To what extent the sanctions create the shortages is nearly impossible to say, as the particular effects of the international sanctions on the one hand and the effects of the insecurity on the other can hardly be differentiated. The Syrian government has made strategic use of power cuts and fuel shortage to suppress opposition,[76] reduce subsidy spending,[77] disguise the general lack of generating capacity,[78] the antiquated supply grids and widespread mismanagement.

As a result of the suspended trade agreements and tense relationship between the two countries, bilateral trade between Syria and Turkey fell 63% in the first quarter of this year compared to the same period of 2011. According to the Turkish official statistical agency, Turkish exports to Syria fell 57% to USD 172.7 million in the first three months of 2012 from USD 401.4 million in the first quarter of 2011. Meanwhile, Syrian exports to its northern neighbour dropped 82% to USD 21.6 million from USD 126.1 million (Syria Report, 7 May (c), 2012). The suspension of the free trade agreement with Turkey may, however, in fact have benefitted the Syrian sectors. While the suspension has negatively affected the trading community, it has at the same time relieved manufacturers and industrialists of tough Turkish competition. With 75–80% of the 2010 trade taken up by Turkey, the suspension of the trade agreement gave a struggling sector, most notably the textile and furniture industries in Aleppo, a breath of fresh air, helped further by the depreciation of SYP which benefited the export of Syrian goods (Yazigi, 21 Feb 2012). However, as the violence has reached Aleppo, industrial production there also has been severely affected.

[76] Syrian authorities have blamed the sanctions. In May 2012 Minister of Petroleum and Mineral Resources, Sufian Allaw, attributed the shortage in gas to EU and US sanctions preventing companies from dealing with Mahrukat company, claiming that several companies had declined their contractual obligations due to EU sanctions on supplying oil derivatives with reference hereto (SANA, 24 May 2012)

[77] As electricity is heavily subsidised in Syria, cutting power reduces subsidies to public expenses, albeit through harming business and industries. In May 2012 the Minister of Electricity said that fuel for the power plants amounted to SYP 250 billion per year, while revenues generated by subscribers amounted to only SYP 50 billion. (Syria Report, 14 May 2012)

[78] From 2003 to 2007, Syria experienced an almost 10% annual increase in demand, resulting in prolonged blackouts in a number of cities, according to EIU 2008: 11

5.1.4 Economic hardship in a resilient economy

The impact of the international sanctions on the Syrian economy has been extensive and severely undercuts the Syrian government's room for economic manoeuvre. Most significantly, the sanctions have obstructed the Syrian's state's ability to obtain revenues and foreign currency. EU sanctions on oil have efficiently dried out a crucial source of income and sanctions on the financial sector have hampered the Syrian state's ability to perform international financial transactions. Recalling the relative diversification of the Syrian economy – encompassing a variety of sectors –, the Syrian economy is, in theory, better equipped to adapt to the altered economic conditions than are most Middle Eastern economies. The economy as such has traditionally been relatively self-sufficient, having only recently been moderately exposed to the world market following decades as a relatively closed economy. However, with manufacturing and agricultural production severely hampered, primarily by the intensified violence, the state's overall diversification is dwindling and ability to actually produce goods to export is decreasing. The Syrian government has not been able to come up with a viable economic plan to efficiently counter the international measures. After in effect having brought public investment to a halt, the Syrian government has been forced to limit its current expenses, though maintaining subsidies on fuel and basic food commodities. Nevertheless, the Syrian state is struggling with a substantial fiscal deficit that is – all other things being equal – unsustainable. An informal economic infrastructure is already in place and times of moderate economic activity and economic hardship are nothing new. As a result, the Syrian economy is able to endure a state of subdued economic activity and economic hardship during which the economy can be expected to gradually erode and disintegrate.

Many observers have speculated that political ally Iran would support the current Syrian government with economic means – in addition to favourable trade agreements and possible lending their experience with evading international sanctions – to compensate for the falling public revenues and thus helping the Syrian state's economy keep afloat. However, direct financial support appears to be less than often suggested.[79]

[79] Iranian Deputy Foreign Minister for Arab and African Affairs Hussein Amir-Abdullahin underlined this mid March, stating, "The Islamic Republic [of Iran] stresses its all-out support for the Syrian government and nation" (Moqawama.org, 12 March 2012). Iran Vows Support for Syrian Gov't, Nation http://goo.gl/YecAc. Documents leaked anonymously in February purportedly showed that Iran had allocated USD 1 billion to buy basic supplies and offered advice on how to overcome an oil embargo (See original document at Hareetz, 12 Feb 2012). Syriasteps, considered close to the regime, reported in August 2012 that Iran had granted a concessionary loan of USD 1 billion to finance the building of power plants, purchase of oil products and supply of machines. Perhaps more interestingly Syriasteps further claimed that in March 2011 the Syrian government had declined an Iranian offer to loan USD 5 billion (Syria Report, 6 Aug 2012). However, the reliability of these reports is questionable.

All the same, since the spring of 2012 Russia seems to have taken upon itself a growing role in propping up the Syrian state's economy.

The economic impact of the sanctions on the targeted business cronies closely affiliated to the regime is ambiguous. While the *awlad al-sultah* have been negatively affected by limitations on their ability to conduct international transactions and by the overall economic decline, reports suggest that they are the ones primarily exploiting the new informal market opportunities, including smuggling, caused in part by the sanctions.

The international sanctions have also had significant impact beyond the regime's inner circles and the state. Compliance and especially over-compliance with the financial sanctions have hampered ordinary Syrian citizens and businessmen's ability to perform international transactions and gain credit, while sanctions are also likely to have contributed indirectly to the high inflation rates and shortage of fuel, heating oil and cooking oil and, in turn, limited private sector manufacturing and import. The effect has been substantial. An anti-regime businessman from Deir ez-Zour repeats a perception often heard, when he states: "*Money transactions are a nightmare, and we cannot get the raw materials. We suffer from the sanctions more than the regime*" (Quoted in ICG 2012b: 31n).

5.2 Impact on institutional infrastructures

5.2.1 Impact on civilian institutions

Sanctions on top-level civilian officials have thus far not provoked any change in openly-stated allegiance or defections amongst listed officials. Until July 2012 top-level defections had been remarkably scarce. However, the month of July saw a spate of notable defections, prompted by the defection of the Syrian Ambassador to Iraq, Nawaf Fares, who in mid July 2012 denounced the regime and the Ba'ath party. The most prominent defection by a senior civilian official to date, however, occurred when Riyad Farid Hijab, appointed Prime Minister two months before, after little more than a year as Minister of Agriculture and Agrarian Reform, announced his defection on August 6. Reports – usually based on opposition sources – continue to suggest that a number of top-level officials are seeking to defect, a claim long heard but impossible to verify. Nor is it possible to gauge the extent to which, sanctions have incited defections. That they have put restraints on Syrian mobility and manoeuvre room is evident, though. Although the defections surely reflect the crumbling of the civilian political infrastructure, two things are important to notice: One, the defections have not yet reached the narrower, inner circles of the regime. Despite the nominal importance of the premiership, even the defection of Hijab is unlikely to have any major impact on the Syrian leadership. Secondly, the vast majority of known defectors are Sunni, thus underlining the increasingly sectarian nature of the conflict, indirectly indicating that incentives created by the sanctions are secondary.

At least until the outbreak of violence in Damascus in July 2012, the civilian institutional infrastructure appeared relatively functional in the capital. Diplomats, international aid and development workers – some of whom were in regular interaction with state officials – interviewed for this report asserted that administrative, governmental structures on the central level in Damascus were relatively intact with state salaries continuing to be disbursed. However, financial difficulties as a result of the sanctions and violence combined have increasingly left their mark. All perks traditionally extended to civil servants have long since gone and de facto salary decreases in public institutions and delays in payments have been widespread since early spring 2012, arguably reflecting the authority's lack of funds.

In late 2011 and at the beginning of 2012 government agencies relaxed enforcement of certain rules. This was the case with construction regulations (however, reports suggest that that has recently changed) but also in the spheres of NGOs and charity organisations, where collecting donations without the required permit is widely accepted and newly political organisations have been tolerated (Syrian org. delegate, February 21). Whether this is a sign of administrative weakness is not evident. Noting that actual enforcement of regulations has indeed always been selective in Syria, the relaxation could reflect political concerns about causing unnecessary disturbance over non-vital issues at a volatile stage, rather than in ability to uphold the rules. However, in the spring of 2012, the regime conducted sweeping crackdowns against humanitarian networks, thus slamming the window that had till then been left open (ICG 2012b: 20).

As a result of the violence, social service and government infrastructure have reportedly broken down in parts of the country outside Damascus, especially Homs, Hama, Idlib and the suburbs of Damascus. As the violence intensified from January 2012, social service institutions such as schools, universities and hospitals have suffered. School bussing systems had stopped by February; first-term exams at some universities around the country were postponed; there has been looting and damage to property; and lack of access because of the unrest has disrupted the educational sector in parts of the country (EU official, 23 Feb 2012; Syria Report, 2 February 2012). Even more severely, intentional cutting of medical assistance, supplies and schooling, and use of schools as detention centres and government-run hospitals used for torture and ill-treatment in different localities by security services has turned some civilian social service institutions into instruments of oppression by the government (Amnesty International 2011). With mistrust of government-run hospitals deepening, a growing number of civilians have long opted for treatment in private hospitals or field hospitals (Amnesty International 2011: 21). As the violence has escalated, budgets and the regime's ambitions in terms of nationwide governance have dwindled, and local administrations in large swathes of the country have been neglected and abandoned (ICG 2012b: 31).

Support and basic aid relief are provided by local coordination committees, charity organisations, local or nationwide, and informal networks – sometimes on a neighbourhood level – and been crucial in cushioning the humanitarian costs of the conflict – despite limited capacity – with the breakdown and intentional misuse of public social services (UNHCR delegates, 19 Feb 2012; EU humanitarian official, 20 Feb 2012; ICG 2012b). In the areas not controlled by the regime, such networks are reported to have developed considerably.

The development and social GONGOs in Syria Trust, under the umbrella of the First Lady, have lost ground and significance throughout the country. While being professionally and efficiently managed by a well-educated staff, they have little local outreach and anchorage. Being closely affiliated to the regime, they are perceived with distrust in some areas. Furthermore, anecdotal evidence indicates that a great number of members of the Syria Trust have joined the opposition and/or left the country.

As such, the public civilian institutions seem to be dwindling, especially outside Damascus. Defections, lack of funding and, not least, the increasing levels of violence and with that loss of government control in some areas have severely limited the reach and work of civilian institutions affiliated to the regime, in effect having broken down in some areas.

5.2.2 Impact on military and security institutions

Loyalist military, security services and *shabiha* operations have not been foiled by the international sanctions. While the sanctions have curbed the financial capability of the state, whatever dwindling resources are available seem to have been focused on sustaining the security apparatus. Furthermore, the pro-regime security agencies and proxies are reported to be taking advantage of the emerging informal war economy. In addition to the alleged funding by pro-regime businessmen, pro-regime fighters are allegedly benefitting from activities such as corruption, looting, kidnapping for ransom, carjacking and smuggling, thus assuring at least partial financial self-sufficiency (ICG 2012a: 32, 44).[80] Exploiting the opportunities emerging due to continued and escalating violence, the loyalist military and *shabiha* are able to find sources to continue their activity outside the state, thus growing increasingly immune from the impact of the financial sanctions meant to impair the regime's ability to function. In addition, the *shabiha*, as mentioned above, reportedly receives funding from *awlad al-sultah*. Having complicated international trade significantly for most ordinary business, the sanctions may thereby have indirectly benefitted the flourishing black economy of smuggling for those with sufficient resources and networks, thereby unintentionally adding to the very circumstances that allow for a continuous funding of the pro-regime security entities. As such, the very actors that the sanctions are targeting may thus be taking advantage of the sanctions' effects to finance and sustain the violence.

Sanctions on providing the regime with weapons, ammunitions, telecommunications equipment and other technology that can be used for repression seem to be effective in the sense that they have not been breached by the sanctioning states themselves. On 10 July Russia pledged that it would halt new arms deals with Syria, whilst honouring existing ones. Until then, Russia had made no secret of its intention to continue delivering the required armaments to Syria (e.g. Guardian, 13 March 2012).

Through 2012 the Syrian security and military apparatus has experienced increasing fragmentation and defection. Most reports suggest that fragmentation and defections are mostly occurring within some parts of the military, with the elite praetorian divisions and security services remaining relatively cohesive and well equipped. The actual number of defected military and security personnel is widely contested, being part and parcel of the rhetorical struggle to frame the current state of the Syrian regime. From April–May 2012, especially after increasing reports of massacres, a number of high-ranking officers reportedly defected, a phenomenon that had until

[80] According to ICG, looting has now assumed institutionalised and industrial-scale proportions, with army trucks transporting war booty out of affected areas and an emerging dedicated inter-city trade market.

then largely been limited to the lower ranks.[81] To what degree the international sanctions may or may not have facilitated defections is unclear. While sanctions might have some symbolic value, the primary drivers for the increased number of defections have arguably been of a different nature. Corresponding with the surge in violence and increasingly sectarian nature of the conflict, defections seem rather to be a result of internal resistance to the brutal security means applied. With an overwhelming majority of the reported defectors being Sunnis, such defections are not only likely to weaken the army but also to widen the sectarian divide.[82] As a result, the military ranks are becoming disproportionally dominated by Alawites who feel that they have no option but to kill or be killed.

5.2.3 Dwindling civilian institutions and security institutions benefitting from informal economy

During 2012, Syrian civilian and military institutional infrastructures have crumbled and are increasingly appearing, as International Crisis Group ICG in August rightly pointed out, as "*a large network of armed militias*" (ICG 2012b: 6). Civilian government institutions have in considerable parts of the country become non-functioning. At least until large-scale fighting erupted in July, central government structures remained relatively intact with salaries continuing to be disbursed, albeit lowered and delayed. However, outside Damascus, local government and social service institutions have reportedly largely been discontinued in most areas, with non-social networks struggling to provide and organise basic services and support, mainly in areas under control of opposition groups. 'NGO's' closely affiliated to the regime have, furthermore, purportedly become delegitimised and are reported to have disbanded. While the deteriorating security situation must be considered one – if not the main – reason for this development, the lack of revenue may also be considered a factor, as it has limited the resources available for such services. Though lack of revenues

[81] On 20 July 2012, AFP reported – based on an anonymous Turkish official source – that 22 generals had defected to Turkey. The most significant defection, or at least departure, occurred when Brigadier General Manaf Tlass, a senior commander of the Republican guard, left Syria in early July 2012. Claimed initially by many observers to be a potential game-changer, there is reason to believe that the blow to the regime might be much less than first thought. Manaf Tlass comes from a leading Sunni family that has been very close to the Assads for decades. His father, Mustafa Tlass, was Minister of Defence 1972–2004 and a long time friend of Hafez. However, Mustafa Tlass was one of the old guard figures who were sidelined by Bashar Assad and is now – along other members of the family – living in Paris. Manaf Tlass was known as a close confidant of Bashar from his earliest days and had been part of or close to the inner circles of the regime. Reports suggest that Tlass, at the outbreak of the conflict, served as a middleman in attempts to resolve problems concerning social issues and local governance in Douma and Harasta (al-Arabiya, 9 July 2012). However, Manaf Tlass was purportedly gradually pushed aside, and his alleged attempts to become defence minister both in the April 2011 and June 2012 cabinet reshuffle, were disregarded (Al-Akhbar, 8 July 2012).

[82] According to EIU, 70% of the army's soldiers and four-fifths of officials are Alawites, and the most important divisions consist exclusively of Alawites.

is likely also to affect the security sector, it is unclear to what extent. The ruthless armed campaign by security, military forces and *shabiha* leaves little doubt that the regime's paramount priority is its own immediate regime survival, in which case any available resources must be expected to accrue to the security and military apparatus rather than to civilian institutions providing social services. In addition, the security sector, including *shabiha*, is reported to fund its activity outside the public purse, to a growing extent depending on an flourishing informal war economy of corruption, smuggling and looting as well as, in the case of the *shabiha*, alleged financial support from businessmen closely intertwined with the regime's inner circles who too are allegedly benefitting from the informal economy. By hampering private sector export and adding to inflation rates, the sanctions may indirectly have helped maintain economic conditions conducive to smuggling and other informal sector activities, from which security, military and paramilitary groups, affiliated to the regime, are allegedly benefitting. Though the data currently available is not conclusive on the matter, it does suggest that the sanctions produce two opposite effects; on the one hand, the international sanctions have succeeded in curbing revenues for the crumbling Syrian state. On the other, they may indirectly help produce and maintain economic conditions that are beneficial to the informal funding of regime-affiliated security and military entities. The significance of the sanctions in this perspective is debateable, but the sanctions have certainly not counteracted the emergence or the continuation of such economic conditions. From this perspective, the effects of the receding state revenues are more likely to be found in a further breakdown of the remaining civilian infrastructure rather than in a halt of the regime's security and military activities.

5.2.4 Impact on socio-economic situation of the civilian population

The deteriorating economic situation has had a considerable negative impact on the socioeconomic conditions of large parts of the Syrian population, affecting particularly the most vulnerable groups in the country. With international sanctions being partially, but by no means exclusively, responsible for the economic downturn, the international sanctions have indirectly added to the overall socioeconomic costs of the conflict and violence.[83] The indirect effects of the sanctions are highly intertwined with the conflict's direct repercussions and thus highly difficult to isolate.

[83] Economist and Chief Editor of Syria Report concurred when he painted an even bleaker picture: "*There must be no illusions. These sanctions - before anything else – are impacting the population. They are not affecting anyone else*" (Yazigi, 21 Feb 2012).

The international sanctions have been a significant factor behind the increasing unemployment rate and substantial downward push in salaries, both within the public and private sectors, thus either disrupting or significantly lowering the incomes of large parts of the population. Through their negative impact on the overall economic activity in Syria, as explained above, the sanctions have but added to the increasing unemployment caused directly by the unrest. Though the exact unemployment rate is debated, it has even by official accounts at least doubled, as indicated above.[84] By limiting the state's revenues, the sanctions have limited the resources available to pay salaries in the public sector, thus indirectly causing significant income reduction in many families. However, it is indeed highly questionable to what extent the regime would in fact channel resources to the civilian sector rather than the security sector, were more resources to be available.

At the same time, the sanctions are partially responsible for the increased price level of basic commodities. Price increases have been unevenly distributed across the country. While the violence-ridden areas have experienced acute shortages of basic food commodities, peaking under siege, and skyrocketing prices for whatever food is available, other areas across the country have experienced different levels of price increases. Such massive increases in prices of basic commodities are highly socially lopsided, having a disproportionate impact on those who spend the largest proportion of their income on basic commodities, especially those on fixed incomes such as pensioners. One international aid delegate bluntly summed up the effect as follows: "*Those suffering from the sanctions are largely those at the bottom. While those listed are able to diversify their funds, the people at the bottom are hit hard by the significant price increase for the basic food basket*" (Int. aid delegate, 19 Feb 2012).[85] With some 1.4 million people struggling to meet their daily food needs – mainly in areas that are currently heavily scarred by violence – even before the crisis erupted price hikes for food had had a major impact on large parts of the population. In mid March 2012 the UN agency for Food and Agriculture issued a special alert on the food security situation in Syria, especially for vulnerable groups, and a joint assessment mission conducted by a number of UN agencies, OIC and led by the Syrian government later

[84] The social impact of such layoffs are multiplied as the rate of economic dependency in Syria is high, reaching 4.4%, meaning that each employee supports nearly 3.5 persons besides the breadwinner, him or herself (Syria Today, January 2012).

[85] While such concerns are indeed secondary at the moment, the shift towards higher consumption of staples such as bread risks causing malnutrition if maintained as consumption of protein-rich products such as meat and poultry has dropped due to the significant price increases.

in the same months estimated that 850,000 people were in need of food assistance (FAO, 14 March 2012).[86]

While medicine and food are explicitly exempted, over-compliance with the financial sanctions has resulted in difficulties of importing both food and medicines (EU diplomat, 15 May 2012). While 90–93% of all medicine consumed in Syria is produced by the local pharmaceutical industry, production depends on imported active agents, machines and equipment.[87] In addition to increased production costs caused by fuel shortages and higher raw material prices, import has been complicated by the international financial institutes' reluctance to deal with Syrian companies and inability to open letters of credit to pay for supplies (and most likely lack of foreign currencies). As a result, consumer prices of medicine have reportedly risen and shortages are appearing. A UN mission in March 2012 found that "*shortages of essential medicines were reported in nearly all the governorates visited*" (Reuters, 26 Apr 2012). These shortages should by no means be blamed entirely on the sanctions, but the financial sanctions do provide obstacles to import.

Cutting state revenues has limited the government's potential to develop and maintain its social services. Due to the intertwined nature of the regime and the state, the sanctions targeting the regime are in effect sanctions on the Syrian state as such (EU official, 20 Feb 2012). Curtailing funding of the regime therefore becomes a question of cutting funding to the state, thereby limiting its ability to provide social services to the citizens (however lacking and corrupt these may be) and indirectly causes a negative effect on the Syrian population, as argued by several international aid workers interviewed for this report.[88]

Support and aid relief from charity organisations, local or nationwide, and informal networks have been crucial in cushioning the humanitarian costs of the conflict.

[86] WFP launched an emergency operation for Syria in August 2011. Working with its partner SARC, WFP has provided food assistance to up to 100,000 people a month in areas heavily affected by the violence. Through June, the assistance had been scaled up to 500,000 with the aim of reaching 850,000 in July. However, as UN OCHA's Director of Operations stated "In spite of the scale-up, the gap between the need and the means is very much still there." (UN OCHA, 16 July 2012).

[87] According to SANA, in early January Health Minister Dr Wael al-Halqi stated that work was being done to increase the medicine coverage of the local market from 93% to 96%, while noting that the ministry did not intend increase prices despite rising costs of production and raw materials and the 40% decline in exports (SANA, 4 Jan 2012).

[88] One such example was a nationwide social aid program, the National Fund for Social Aid, with technical assistance from UN agencies. It was launched in January 2011 to offer periodic or emergency subsidies with cash distributions to some 420,000 families, the elderly, the poor etc. to the tune of about SYP 12 billion (USD 250 million) yearly. The first two payments in 2011 were met while the third has to date not been.

Being funded through private donations these are, however, susceptible to a general exhaustion of the financial resources in Syrian society (EU official, Feb 20). This puts stress on remittances and donations from relatives etc. from abroad. Access to these have, however, long been hampered by the difficulties of transferring money due to compliance and over-compliance with the sanctions. Informal networks have emerged where individuals cross the border to Lebanon, bringing back money in cash for distribution in informal networks.[89] Though believed to be extensive, the actual extent of this traffic is unknown.

Some of the most vulnerable groups in the Syrian context are the foreign refugees residing in Syria – estimated to exceed 1 million people – who have been severely affected by the conflict.[90] The shrinking job market hit the refugees early in the crisis. Due to the halt in the tourism sector and cutbacks in restaurants (where refugees would often find employment), a tendency to choose Syrians over non-Syrians and a significant reduction in salaries, these vulnerable groups suffered from the outset (UNHCR delegate, 19 Feb 2012). In a snapshot survey conducted by UNHCR at around the end of 2011, some 13% said that they had lost their jobs, and 40 of those with jobs had experienced a reduction in income. Many refugees – especially those of Arab origin – had previously enjoyed support from Syrian charity organisations. However, with the soaring needs amongst Syrians, most local charities have redirected support and funds are now being channelled to Syrian receivers (Int. aid delegate, Feb 2012). The impact has been relatively stronger on the non-Arab refugees who often lack networks. Difficulties of facing transferring of money – resulting from the sanctions – have complicated the reception of pensions for pensioners amongst the Iraqi refugees.[91]

The curtailment of further programmes involving cofunding between UNDP and the Syrian government means that micro financing of some 3,000 women has been negatively affected.

89 One interviewee explained how he himself had had made such trips. He would go to Lebanon, receive money collected from donors from around the world and bring the money back in cash to Syria to the humanitarian networks that would then distribute it.

90 Estimates of the total number of refugees remain highly uncertain. UNHCR provides assistance to over 100,000 Iraqi refugees in Syria, most in Damascus, along with some 8,000 Afghans, Somalis and others. However, based on Syrian government figures, the UN has claimed that some one million Iraqis are residing in Syria. In addition UNRWA provides services for more than 485,000 Palestinian refugees.
Amongst the effects recorded have been an increase in depression, suicides and domestic violence and, to a certain degree, tensions between Iraqis – seen as loyal to the Assad leadership – and Syrians opposing the regime (Int. aid. delegate, 19 Feb 2012).

91 It is noteworthy that no mass exodus of Iraqi refugees had been recorded by July, despite the grievances. While the numbers are likely to have increased significantly in recent months, UNHCR estimated that on an average weekly basis only four of their registered families were leaving in mid February.

While the international sanctions cannot be blamed for having created the critical socioeconomic and humanitarian situation in Syria, they cannot be said to have eased it, either. As such, the sanctions have added negatively to the socioeconomic impact of the conflict on considerable parts of the population, and in particular on its most vulnerable groups.

5.2.5 Impact on political power structures

While the direct impact of international sanctions on the political power structures underpinning the regime has been limited, they have indirectly curtailed the regime's ability to foster and rebuild new patronage networks. However at this stage such ability has become secondary.

Significant parts of the business community are believed to have left due to the current situation. Leaving the country might result in the cutting of funding for the regime but it also takes away the livelihoods of ordinary people. It is not unlikely that leaving Syria, to some, would seem a necessary precaution in order to avoid being included on the expanding EU listings or suffer threats from opposition groups. Despite sanctions tailored to target the inner circles of the regime networks through listing of individuals and affiliated companies, the inner circles of the Syrian leadership have proven remarkably resilient to defection, especially considering that the unrest has now lasted almost one and a half years.[92] While the summer of 2012 has seen an increasing number of military defections (especially along sectarian lines), there are very few reports of defections amongst the business cronies that have been crucial to and who are closely linked with the regime (though rumours have been abundant). Though sanctions targeting individuals might potentially have made some businesspeople reconsider actively supporting the regime, none of the listed have defected or shifted allegiance, nor have any other publicly known government or security officials from the inner circles distanced themselves publicly. On the contrary, these inner circles have arguably become even tighter in order to protect the system in which they themselves and their families are deeply implicated, using any means necessary. Though sanctions may (or may not, as argued above) potentially result in financial losses for wealthy families like the Hamshos and Makhloufs, shifting allegiance or defecting is an unlikely option until the collapse is evidently imminent.[93] They are likely to be deterred by the likely

[92] One observer, Professor Bassam Haddad, coined the nature of the tendency rather precisely, stating that: "*The regime has thus far remained unitary and cohesive, while the society is heterogeneous and, to some degree, divided*" (Haddad 2012).

[93] Some of most notorious business cronies, such as Muhammad Hamsho, Samer Dibs and Ahmad Nabil Kuzbari even formed their own list at the parliamentary elections charade held in early May, spending lavishly and buying the largest billboards, according to ICG 2012(b): 13n.

prospect of losing any assets in Syria (at least as long as the regime prevails) and the severe punishment that would await the parts of the family left behind, but as the crisis has become increasingly more existential and sectarian in character, jumping ships (or at least leaving the ship) has become increasingly more difficult. After having sided with and supported the regime for more than fifteen months – and maybe even having funded parts of its repression – turning back has become increasing difficult. In addition, the close family ties between the different components of the security–business–regime networks make defection much more than an economic issue. Moreover, the new business moguls and the security and the military elites organically linked to the regime owe their fortunes to this relationship. Fearing that they and families will loose all assets and benefits under any other, alternative, government in the case of a transition, they are unlikely to turn their back on their close relationship with the Assad regime. From their point of view there is good reason to invest the required means – of which they have a considerable amount – to continue funding *shabiha* or any other entity concerned with quelling the uprising and to stay by President Assad's side. Nevertheless, as the regime appears increasingly vulnerable, options of hammering out exile deals with foreign governments may be explored. Notwithstanding the questionable reliability of the continual rumours of deal-making by members of important families such as the Makhloufs; were they to materialise, such deals could create cracks in the narrowing power base that the regime relies so heavily upon.

While power seems to have been increasingly centralised at the very top, the previous political structures of the Ba'ath party have collapsed from the inside.[94] Already weak at the outset, Ba'ath party structures have become, in the words of International Crisis Group's Peter Harling, "*an empty shell*" (Harling 2012). As such, the crisis seems to have stripped the individual Ba'athists of the guise of the party structures. What is left are a number of interlinked individuals who depend on the survival of the existing authoritarian structure. However, little suggests that the sanctions have been a significant factor in this process.

The regime's rolling back of recent years' reforms in favour of a return to familiar strategies along with the redirection of the economy towards Eastern markets

[94] During the course of the conflict, decision making has allegedly been increasingly more centralised in the hands of some six people, chaired by the President. Damascus-based diplomats believe that this group of Assad family members and security chiefs is the main decision-making body on the ongoing military and security situation, advised by the old guard, while most Ministers and high-level officials are less implicated in the decision making process itself and are mostly left to implement what has been decided upon, with regime security concerns eclipsing other issues and concerns. The accuracy of intelligence on the highly closed Syrian leadership should, however, always be viewed with a fair bit of scepticism.

could, in theory, help Assad to regain ground among the traditional business communities and in the rural areas. However, this would require the regime to 're-co-opt' some of the elites whose influence it has curbed for more than a decade. With its resources severely limited as a result of the sanctions, the government's potential to mend or strengthen patronage networks has been substantially reined in.

Government ambitions to enhance trade with the Eastern markets, especially Iran and Iraq, entail a refocusing on the traditional sectors, especially textiles and manufacturing, helped by the devaluation. This has been reflected in the attempts by the government to appease manufacturing industry. In theory, this would provide the regime with an opportunity to extend benefits to an important segment in Damascus and especially in Aleppo in order to try to gain or regain their support, or at least avoid that they support the opposition.[95] However, the regime risks building on sand. Though these traditional business networks have traditionally proven risk-averse, a coherent, trustworthy and attractive economic plan for the future presented by the opposition at one point might attract many from the traditional business community.[96] The spectacular strike by merchants of the old souks of Damascus in May seems to reflect an overall tendency of the traditional business establishment to leave the side of the regime. Having – at least passively – supported the regime for decades, the Houla atrocities resulted in many of the traditional families helping to paralyse the Damascene market and abstaining from supporting the regime at the parliamentary elections (ICG 2012(b): 13n, 19). This suggests that many of the traditional business networks might have left the side of the regime.

After the outbreak of the unrest, the government began announcing a steady stream of reforms and benefits to public employees and farmers.[97] Arguably, this had a very strong appeasement component. Agricultural efforts could easily be seen as an attempt to hold down the uprising in rural areas, where important agricultural areas such

[95] Government reversal of the ban on imports of goods that carry over 5% custom duties only 12 days after its introduction in September following massive criticism from the business community can be seen an indication of the regime's cautiousness about upsetting this important group unnecessarily

[96] There have been attempts to establish just such an alternative. The SNC launched a chamber of commerce that clearly lacked the required vision, professionalism and competence. However, in July, reports surfaced of a new group emerging supported by a business heavyweight who had previously enjoyed a very close relationship with the regime (EU diplomat, 20 June 2012). This could potentially prove significant.

[97] In September a legislative decree cancelled interest and fines on late loans offered to farmers for cultivation purposes and ensured that the Agricultural Cooperative Bank provides farmers with all their requirements for agricultural production.

Hauran and Ghab between Homs and Hama, have been significant.[98] However, with the continued and intensified violence in these areas there is every reason to doubt their effect. With shrinking resources available, partly due to the sanctions, the regime has been unable to deliver on promises of extended credits, loans and subsidies, and thus has little to offer in attempts to maintain patronage networks.[99]

From the very outset, discontent with socioeconomic conditions played a crucial part in fuelling the uprising. The popular discontent that has led to the current wave of protests in Syria is often attributed to the growing poverty belts around Syria's large urban centres, fed by migrating farmers that have left their agricultural activity to seek new work opportunities in cities (ICG 2011). The government attempted to curb this by a belated increased subsidy on heating fuel, and established a social security fund designed to provide cash handouts to needy families, cut back taxes on basic goods and attempted to boost employment in the public and private sectors, as mentioned.

Increased economic hardship and deteriorating social services could, from this point of view, be eroding the patronage bonds and potentially inciting people to protest against the government as the economic hardship prolongs and social services melt away. Should the Syrian state fail to provide economic resources for its middle class public employees in Damascus, this could potentially increase the pressure on the regime, but as Peter Harling of ICG has rightly pointed out in a paper in April 2012: "*In a highly mobilised society, whoever potentially could be tempted to protest has done so already; economic hardships are unlikely to draw many more to the streets*."(ICG 2012a). As such, there is reason to believe that the conflict has entered a stage where a deteriorating economic situation is less likely to produce significant political mobilisation than to result in increased displacement of vulnerable groups and/or lead to increased radicalisation, as people become more susceptible to wield a weapon in support of whoever may help them bring food to the table, as the civil war in neighbouring Lebanon has already made painfully clear. While financial incentives to break ranks with the regime might be relevant when talking about the economic elites, economic hardship to most Syrians today is a question of pure survival.

[98] The Syrian government has announced an allocation of 10% of the income tax generated by the joint venture firms to their Governorate of location. This will benefit the oil producing governorates of Deir ez-Zour and Hassakeh most (The Syria Report, 11 March 2012). Government to Allocate Oil Revenues to Eastern Governorates – Report, http://goo.gl/Dz1Qz

[99] Any such attempts might furthermore be tripped by the highly inefficient, corrupt, and inflexible Syrian bureaucracy.

6. Conclusion

As a small group of teenagers protested in the streets of Da'ra in March 2011, few imagined the magnitude of the dynamics they were about to set in motion. While the final outcome of the conflict remains below the horizon, there is little doubt that the popular uprising–turned–civil war has profoundly changed Syria. The Syrian regime's brutal repression of its own population in response to what were, in the beginning, predominantly peaceful protests provoked a comprehensive battery of international sanctions, intended initially to bring the violence to a halt but which, with time, soon grew to aim at restraining and weakening the regime. Intertwined with and mutually exacerbating as well as countering the impact of the violence, the sanctions have left a considerable mark on the Syrian state's economy, its government structures and the power structures underpinning the leadership, but have also come with a significant cost for the Syrian population. The present report has sought to map the repercussions of international sanctions on the Syrian economy, its institutional infrastructure, the socioeconomic situation and the political power structures underpinning the regime's authoritarian rule.

Economically, the international sanctions have severely hampered the Syrian state's access to revenues and curbed its ability to obtain foreign currency, most importantly by targeting the oil and financial sectors. In a fumbling response to the change in the economic conditions, government efforts to take advantage of the loopholes offered by neighbouring countries who abstained from League of Arab States sanctions, such as strengthening trade with Iran and Iraq, are unlikely to do anything more than cushion a dramatic overall decline in revenues. With products of sub-market quality, lack of trading networks, profound obstacles to oil export and plummeting production in the agricultural and manufacturing sectors as the combined result of the deteriorating security situation and, indirectly, of the sanctions, significant improvements in export revenues are under the current circumstances unlikely, as are increased revenues from tax collection. Maintaining relatively high public expenditure, the Syrian state is facing an unsustainable fiscal deficit. Though the extent of financial support from Iran and Russia remains unclear, recent reports suggest that the latter in particular is stepping up efforts to prop up the Syrian state economy.

With the Syrian state institutionally dissolving, in considerable parts of Syria civilian government institutions have become non-functioning though, until recently, central government structures remained relatively intact. Outside Damascus local government and social service institutions have reportedly largely broken down in most areas, with non-social networks struggling to provide and organise basic services and support. This appears to be the product of several intertwined factors including defections, insecurity, regime priority for regime survival, increasing loss of territorial control in addition to the lack of state revenues, caused by the sanctions, which makes assessment of the impact of the sanctions alone difficult. However, little if anything suggests that access to additional financial resources would benefit the civilian sector, rather than the security sector. The security sector, including the *shabiha*, on the other hand, has reportedly found financial sources external to the state purse, benefitting from corruption, smuggling, looting and financial support from businessmen closely intertwined with the regime's inner circles who are allegedly benefitting from the booming informal economy. Having hampered private sector import and export transactions and added to inflation, the sanctions have indirectly contributed – though by no means been the primary factor – to the upswing of the informal economy. As such, the international sanctions may produce economic effects running counter to their aim. While succeeding in limiting state revenues, sanctions on the financial sector may have contributed to the creation of the conditions from which pro-regime security agencies and their funders now benefit. Consequently, the security sector may remain relatively resilient to the effects of the sanctions.

The listings of individuals affiliated with the regime may potentially have had significant signal value within the military and civilian institutions and discouraged some businesspeople from actively supporting and funding the regime, though such effect is difficult to quantify. Escalating numbers of defections in the summer of 2012, predominantly by Sunnis, have occurred, yet there are no signs of cracks emerging in the regime. The tight inner circles of businesspeople and security and military officials therefore remain manageable from the regime's perspective.

With its financial resources severely limited as a result of the sanctions, the government's potential to mend or strengthen patronage networks for long-term survival has been destroyed totally, among others within agriculture and the manufacturing sector. While parts of the urban middle class – largely employed in state institutions or having benefitted from the regime's prior partial liberalisation efforts – still seem to be conspicuously absent from the lines of the active opposition groups, considerable parts of the traditional business communities seem to have left the side of the regime. Arguably, this is more of a reaction to regime behaviour than to the sanctions, though the increased financial vulnerability of the regime, partly caused by the sanctions, may potentially have been a factor. However, as the Syrian state is institutionally being increasingly stripped down to its security functions, the regime seems to be putting its faith in primarily loyalist insiders and terrified Alawites, prioritising immediate survival above all else. As the conflict grows increasingly vicious, existential and sectarian in nature this may, however, also be sufficient to remain in power for some time to come.

The sanctions have indirectly taken a heavy toll on ordinary private sector business and, in turn, socioeconomically, on the Syrian population and its most vulnerable groups. Compliance and over-compliance with sanctions on the financial sector has hampered ordinary businesspeople's ability to perform international transactions. Thus, by extrapolation, the sanctions regime has indirectly aggravated Syria's general economic downturn, being a factor in the steeply increased levels of unemployment, decreasing salaries and substantial price hikes on food items and other basic commodities. This has significantly increased the vulnerability of the hundreds of thousands of people in Syria with limited financial resources. As such, the international sanctions have significantly added to the negative socioeconomic repercussions of the armed conflict borne by considerable segments of the civilian population, particularly its most vulnerable groups. Rather than leading to significantly increased political pressure on Assad's regime, the deteriorating socioeconomic conditions may be expected to result in rising numbers of refugees and radicalisation.

6.1 Thoughts on future reconstruction and transition

Whatever outcome the popular uprising–turned–civil war will result in, any future government will inherit an economy in dire straits, suffering from deeply rooted structural challenges and decades of failure to modernise, combined with the aggregated impact of armed conflict and sanctions. The long-term and profound structural problems of the Syrian economy will not have disappeared but rather have been exacerbated by the effects of the unrest, the sanctions and the governments' policy decisions. The massive destruction of infrastructure, breakdown of institutions, enormous need for social services, exodus of human resources and starkly rising humanitarian needs caused by the conflict will all only increase as the crisis draws out and puts additional pressure on the Syrian state services in the future.

Though prospects of ending the violence and solving the crisis continue to appear painfully bleak, identifying viable and legitimate institutional pillars to build on in future post-conflict, transition and reconstruction phases is crucial to easing such processes. With Iraq as a costly lesson in how important maintaining institutional coherence and consistency in public administration is to avoid alienation and fragmentation, any future transition would benefit from continuity in structure and organisation to avoid alienation and de-legitimisation of the public administration in long run. The current dwindling state of civilian government institutions, therefore, should therefore cause serious concern. With a state inextricably intertwined with the regime for decades and a security and military apparatus that has done its utmost to lose all legitimacy among the population, finding a way to build on existing state institutions and distinguish between regime and state might prove a Gordian knot. Reports of the takeover of social service and government institutions by local social networks in parts of the country may be cause for cautious optimism, though.

Any future Syrian government will be faced with the immensely challenging task of breathing life into the Syrian economy. The many structural problems in the economy – such as growing unemployment, massive public spending due to subsidies, declining oil income, weak and corrupt institutions – will have but been compounded by the costs and repercussions of the conflict. Traditional sectors such agriculture and manufacturing industry will have to find a way to survive in the international competition. The energy sector has sustained considerable damage to its infrastructure during the fighting. Highly fragile and only nascent already before the uprising erupted, the financial sector has been dealt a devastating blow by the international sanctions and revitalisation of the informal sector. The financial sector will therefore most likely need to be rebuilt and developed from scratch. At the same time, any future government will be tasked with implementing profound and unpopular reforms of the country's economy to deal with structural problems which include the sensitive issue of state subsidies and failure to create new jobs. As such, any new government will need to struggle with the very same issues that played a key role in the initial popular protests against the Assad regime. By and of itself, the struggle in Syria has only just begun.

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