

Syria's Business Elite

Between Political Alignment and Hedging Their Bets

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In the efforts to topple the Syrian regime, it has been widely assumed that the Syrian business community – and in particular the economic elite – could and would play a major role. In this view, economic paralysis induced by actions of the elite would place tremendous pressure on the regime and contribute to its collapse. Syria's business elite have adopted various political strategies that range from aligning themselves with regime or opposition forces to hedging their bets in favor of a political outcome that ensures their continued access to power and wealth in post-revolution Syria. To date, the severe contraction of the economy and the movement of businesspeople outside of Syria have not had demonstrable effects on the regime's resilience and the cohesion of its security apparatus. As the armed struggle continues, the business elite will remain entrenched in their political strategies unless there is a dramatic shift in power. Meanwhile, German and European policymakers should attempt to maintain communication with the elite and encourage policies in the post-conflict period that support their repatriation and inclusion in the reconstruction process.

During the course of the revolution, the Syrian business elite have come under tremendous pressure and risk. There has been pressure on the business elite of regime and oppositional forces alike to align themselves politically and economically with the respective strategic goals. Throughout the revolution, protestors, rebels and opposition leaders on the outside have called on these elite to formally support the revolution. The international community has also spent considerable energy trying to cultivate and include these elite in the formal structures of Syria's externally based opposition. Similarly, the

Syrian regime has placed tremendous pressure on business elite to remain loyal and support its political and military strategies. In the context of these competing and contradictory pressures, Syria's business elite have not thrown their collective political lot behind one group.

Indeed, the trajectory of the Syrian revolution – particularly its militarization, the collapse of the real economy and the subsequent stalemate in moving toward a political solution – has shaped the business elite's stances during the revolution. More often than not, these strategies have been covert ones that have included providing

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support and resources to rebels or protesters, or supporting humanitarian and relief efforts in affected areas. It has also not been uncommon for the business elite to work on both sides of the conflict by supporting the goals of regime and opposition forces simultaneously. Indeed, the covert and double-sided nature of support from the elite has obscured the nuances of business-elite politics during the revolution.

The structure of the Syrian economy

Prior to the revolution, the Syrian economy was undergoing gradual and limited liberalization. This liberalization was slowly shifting the structure of the economy away from oil, service and agricultural – the sectors that accounted for more than half of the total gross domestic product (GDP) in the 2000s. Liberalization had increased other sectors' share of GDP, mainly manufacturing, tourism, transportation and construction. Increasing activity in the latter sectors came mainly from the private business community, which grew considerably in size and contributed to overall economic activity.

The growing contributions of the private sector to the economy did not lead to enterprise growth, however. Prior to the revolution, small and medium-sized enterprises constituted more than 95 percent of all registered enterprises. The large informal sector also fell mainly into this group. These formal and informal businesses were engaged in all sectors of the economy. Since the 1970s, the prosperity and potential of these enterprises had begun to recede considerably, as a complex web of regulations, contradictory government policies and the constant threat of economic sanctions by Western countries precluded their individual and collective opportunities for enterprise growth and wealth accumulation.

At the same time, these enterprises were mostly on the periphery of the formal and informal centers of power that shaped economic policy and decision-making. As a result, economic liberalization – pursued

in piecemeal beginning in the 1970s and eventually accelerated in the 2000s – was of only marginal benefit to many in this segment of the business community. Rather, its overall impact was mostly negative, particularly as the trade liberalization of the 2000s led to the Syrian market being flooded with regional goods, which forced the closure of many small retailers and producers. Such closures also increased the size of the informal market.

In addition, the revolution has affected the structure of the economy and the composition of its private enterprises. Although the economy has experienced a severe contraction since March 2011, the sectors most affected have been tourism, transportation, oil and manufacturing. This contraction has reverberated throughout Syria's business community and has contributed to the political responses from all strata of the Syrian business community – from smaller enterprises to the elite.

A stratified business community

The most important determinants of the stances that Syria's business elite have adopted since the beginning of the revolution are the consequences of the stratification stemming from Syria's political economy and the ensuing proximity of the respective elite to centers of regime power. The domestic Syrian business community consists of three main segments: the bulk of small and medium-sized enterprises; the "integrated" business elite, who form an organic part of the regime; and the "dependent" business elite, who owe their wealth and power to connections to regime circles of power. In addition, there is an "external" elite consisting of Syrians outside of the country, whose wealth was mainly accumulated outside of the Syrian market.

At the onset of the revolution, the large majority of Syrian businessmen were not considered to be a powerful political force, as they lacked access to wealth and power and had no institutions from which to mobilize. Autonomous institutions of col-

lective action, such as Chambers of Commerce, had been actively suppressed or co-opted by the regime.

The “integrated” elite: Partial liberalization had fostered certain business actors’ dependence on the regime for access to their wealth. Loyal elite with direct social and familial linkages to the regime were cultivated. This “integrated” elite shared very little in terms of social background with the majority of Syrian enterprises. Yet, because of their close ties to regime circles, they became involved in all major areas of the Syrian economy. They were the direct beneficiaries of state-led development and, later, the government procurement system that enabled private-sector involvement in key areas of the economy. Indeed, the marketization period of the 2000s, and the 2005 adoption of the “social market economy” model of development, only expanded this group’s access to national wealth, as they took the *de facto* lead in the private sector’s new role in the Syrian economy: controlling or partnering in new endeavors from banking to luxury car sales. Simultaneously, the makeup and size of this elite segment expanded as new members, such as the children of the political and security elite, were incorporated. What did not change, however, was that the elite’s access to wealth was a direct function of their being embedded in the threads of regime power through direct social and familial affiliation. They could thus be considered an organic part of the regime. Ultimately, their interests and political orientations were (and remain) virtually indistinguishable from those of the political and security apparatuses of the regime.

The “dependent” business elite: In the 1970s, a new segment of business elite emerged that was not directly interwoven with regime power through social or familial linkages. They were, however, politically dependent on the regime. Prior to the liberalization of the 2000s, these figures had also been dependent on Syria’s particular model of state-led development and the rent opportunities it afforded those with

access to power. Such dependence took on more dynamic forms, as liberalization opened up new economic opportunities, and the circle of those constituting the elite slowly expanded. On the eve of the Syrian revolution, this segment of the elite had a rather mixed social and political background. It was comprised of elements of traders and industrialists of the traditional urban, Sunni merchant elite, and the *nouveau riche* class that owed its wealth to marketization policies pursued after 2000.

The dependent elite diversified its activities well into the 2000s. Families, such as the Sanqar and Nahhas families, were deeply involved in many sectors of the Syrian economy. Despite their wealth and connections to regime power, they were still at risk of seizure by the regime. The Sanqar family, for example, lost its lucrative license contract to import luxury cars to Rami Makhlouf, a maternal cousin of Bashar al-Assad and the most visible symbol of the integrated elite. Such maneuverings by the integrated elite against the assets and contracts of the dependent elite were not uncommon, highlighting the precarious and dependent status of this elite segment *vis-à-vis* the regime.

It is this segment of the elite that had the potential to play a dynamic and robust role in support of the opposition, as it was not bound to the regime by the same organic linkages and, at the same time, enjoyed greater wealth and potential access to power than the small enterprises. Also, many representatives of this elite segment were believed to have independent – and even oppositional – political stances. Those were at times a consequence of the uneven competition between them and the integrated business elite, in which the latter often had at their disposal the security apparatus to ensure seizure and transfer of key assets.

Indeed, at times, this translated into support for the opposition. For example, in the early stages of the revolution, an opposition conference was held in Antalya that was funded by three Syrian businessmen with substantial dealings inside Syria who had

lost out on key contracts to the Makhlouf family. Such examples point to the potential role that this segment of the business elite could have played in the revolution. Yet, it has not thrown its collective political lot behind one group. Still, its economic strength and relative political autonomy from the regime has made its involvement in the politics of the revolution important.

The “external” business elite: Since the 1970s, a Syrian business elite has gradually developed in the region. For the most part, their wealth was accumulated outside of Syria. Until the liberalization of the 2000s, which specifically attracted (or sought to attract) Syrian expatriate capital, most of their investments and assets had been held outside of the country. The liberalization was moderately successful in encouraging some exiled Syrians to return and invest in the country. Nevertheless, this limited engagement was insufficient to create a strong interest in the continuity of the regime during the uprising. With their wealth located mostly outside the country, they were taking little economic risk when aligning with the opposition and openly supporting the revolution’s goals.

Stratification and political alignment

As a rule, then, the closer elite segments have been to regime power, the more likely they have been to align with the regime. This has not precluded covert strategies of reaching out to the opposition, or even overt ones, as suggested by a meeting in February 2013 between then head of the Syrian National Coalition, Moaz al-Khatib, and Mohammed al-Hamsho and Anaz Kuzbari, two businesspeople closely aligned with the regime.

Sanctions have also played a role in determining the political alignments of the elite. Sanctions against Syrian individuals were intended to place pressure on them to abandon the regime. The complicated nature of sanctions and the difficulties in having them lifted have, however, produced the opposite effect: no individuals

under sanction have aligned with the opposition. The international pressure may have targeted those closest to the regime who were most essential to its economic strategies during the revolution, but this was simply ineffective in inducing a rupture between the elite and the regime. Similarly, many of Syria’s business elite remain fearful of being placed under sanctions. At best, this has encouraged them to stay under the “political radar” in an attempt to avoid sanctions. At worst, it has encouraged many of those who have not been sanctioned so far – but fear having sanctions imposed on them – to move closer to the regime. Thus, rather than encouraging divisions within the regime, sanctions have had the opposite impact of encouraging actors to align themselves more closely with the regime.

Similarly, sanctions have not encouraged Syria’s integrated elite to abandon the regime. At certain points in the conflict, some members of this elite, including Rami Makhlouf, hinted at the possibility of a disengagement from the regime and departure from the country. However, nothing of this sort has happened and the integrated elite remain firmly entrenched in Syria.

The only segment of the business elite who have incentives to publicly align themselves with the opposition are those businesspeople outside of the country who are not dependent on the Syrian market or regime continuity for their wealth and power. Conversely, Syria’s dependent elite may not have political affinities with the regime but cannot take the chance that their political bets lead to exile or isolation down the road. Their political and economic orientations are fundamentally different from those of the businesspeople outside of the country because of the dependence on access to the Syrian market, and thus proximity to regime power.

Hedging their bets

Since the beginning of the uprising, representatives of the dependent elite have most-

ly divested of their assets, moved abroad and attempted to establish production elsewhere in the region. Traders and industrialists in particular have reestablished production in places such as Turkey and Egypt, while others have migrated to Lebanon, Jordan and the Arab Gulf countries. To date, they have not publicly embraced the opposition. At best, they have maintained regular communication with both the regime and opposition intermediaries. In many cases, they have provided covert financial support to the political activities of both sides. At worst, they have avoided such communication and support.

The cumulative effect of such political posturing has been to convey neutrality. Such neutrality suggests that this segment of Syria's business elite have hedged their bets in anticipation of a political outcome that would facilitate their continued access to political power in post-revolution Syria. Thus, far from being a passive group in the Syrian revolution, these business elite have actually been quite active, but not in the manner initially assumed. The assumption that they would only nominally be loyal to the regime has proven correct. But the corresponding assumption that this superficial loyalty would lead them to embrace the opposition has turned out to be flawed.

In general, two factors can be identified that have led businesspeople to adopt an attitude of hedging their bets:

Lack of sufficient incentives to rupture relations with the regime: Different sanctions by the European Union, the United States and the League of Arab States, among others, against Syrian institutions and individuals have likely had the opposite effect and not encouraged siding with the opposition. Individuals under sanctions have been pushed further into supporting the regime. The dependent elite have feared the threat of sanctions, and those with direct ties to the state apparatus and public sector have been afforded little political or economic room for maneuver under the sanctions regime. At the same time, many of the business elite remain wary of some ele-

ments of the Syrian opposition. In addition, a public announcement of a break with the regime is unlikely to happen, as many of the elite are simply not convinced that the opposition can defeat the regime. Thus, the necessary conditions for a political alignment of the dependent elite with one side or the other are simply not present at this time. While the regime may be detested by some of the elite, the opposition has not emerged as a capable alternative. As such, the uncertainty of the outcome of the revolution dictates that the dependent elite remain on the sidelines.

Economic interests in the country: In spite of the massive capital flight, the majority of Syria's business elite have assets remaining in the country and desire to return after the conflict, even though they have established enterprises elsewhere in the region. With such interests at stake, it would be unwise to bet on one outcome of the conflict. Political alignments with either the regime or the opposition might jeopardize access to political power after the conflict. This is particularly true when we consider that the business elite are at high risk of being subjected to economic seizures and sanctions in the post-conflict period, regardless of the nature of the political authority that emerges. Unlike smaller business enterprises, they possess land, factories, buildings and other assets that would be easy targets for political authorities to confiscate. Therefore, they are following – and not leading – events of the conflict. Consequently, political communication occurs privately rather than publicly. There seems to be a tacit understanding by all political forces in Syria that this public display of neutrality is acceptable under the current conditions.

Political neutrality and its implications

While the positioning of the various elite demonstrates a keen attentiveness to how events on the ground are evolving, it is a strategy fraught with implications regard-

ing the access to power by the dependent business elite and their participation in post-revolution Syria. In other words, this strategy may lay the seeds of destruction of the very asset – access to power – that they are trying to preserve.

As many of the elite are currently outside of Syria, they will have difficulties re-integrating into post-revolution Syrian life. It is certainly true that Syria's business elite are mobile. However, they may – metaphorically and practically speaking – remain outside of reconstruction even if they wish to return to Syria. Whereas the integrated and external elite will be positioned well to lead reconstruction efforts, should those they support emerge victorious, the situation of the dependent elite is more precarious.

As these elite are further removed from events on the ground, they become more distant from the existing networks and opportunities that ensured their access to power. There is already evidence that some members of these elite are becoming marginalized in Syria. Many businesspeople who have left the country have been silently dismissed from the executive boards of various companies or other positions of nominal leadership and power. Syria's two main holding companies, Souria and Cham, which were economically insignificant but politically relevant, as they represented forms of economic collaboration between the two segments of the dependent and integrated business elite, have silently replaced board members.

The recruitment that has been driving this turnover has largely come from members of the business community who have not left Syria. This includes businesspeople who were outside of both the integrated and dependent elite circles but who nevertheless had acquired some degree of wealth prior to the revolution. These people have begun to try and capture opportunities left by the gaps created by the departure of the dependent elite. This process portends a significant shift in elite composition and elite activity: an emergent elite directly

connected to the war economy and the economic demands of the revolution may ultimately supplant many of the dependent elite in their access to circles of power.

Transportation, distribution and smuggling have been incentivized by the war economy in particular. These needs are being filled by businesspeople from the lower strata of the Syrian business community as well as by warlords linked with either – or in some cases both – regime or opposition forces. These connections provide them greater access to wealth, resources and the circles of political power. It is out of these processes that new elite groups may emerge outside of traditional productive sectors, such as industry. And while this elite turnover does not reflect an altogether different form of elite behavior – the centrality of dependence on the wielders of political power remains – it does reflect a changeover in the political and economic background of the elite.

Perhaps more noticeable has been the absence of the dependent elite from any of the opportunities afforded by Syria's war economy. Indeed, in order to ease the contraction of the economy (albeit a futile effort), the regime has had to rely extensively on businesspeople who do not fall under the different sanctions regimes. The regime has done so by allowing private companies that are owned by businesspeople outside of the integrated or dependent elite segments to engage in business formerly monopolized by public-sector institutions. European Union sanctions on fuel exports to Syria, for example, do not apply to private companies but rather to the state distributor, Mahrukat. To evade the sanctions, the government simply allowed private companies to import fuel. They then distributed the fuel in partnership with Mahrukat. In the short term, such practices cement Syria's war economy and the irregular economic patterns emerging within it. In the mid- to long term, they might midwife a post-conflict reconstruction elite who gain access to wealth and political power in the war economy.

Formally aligned businesspeople

There have been a number of business elite working publicly and closely with Syria's various political forces. The opposition and its affiliated organs (Syrian National Council, Syrian National Coalition) have been somewhat successful in cultivating support from the business elite for their political activities. The most obvious manifestation of this has been the creation of the Syrian Business Forum (SBF) in June 2012. The SBF is a coalition of mostly exiled Syrian businesspeople based in the region, particularly in the Arab Gulf countries, who have formally announced their support of the opposition. They have focused their public efforts on organizing relief and other humanitarian needs in Syria and in refugee camps, while simultaneously putting forth business-friendly ideas and pledges for funds to help rebuild Syria's economy after the revolution. Behind the scenes, the SBF and other external elite not under its umbrella have played a major role in procuring money and resources to opposition activists on the ground.

The Chairman of the SBF, Mustafa al-Sabbagh, has played a major role in the reorganization that has occurred within the opposition's representative institutions. And while in July 2013 al-Sabbagh lost out in an election for Chairman of the Syrian National Coalition – in some part due to Saudi support for his main opponent – his candidacy and the support he received reflect the ability of the external business elite to influence the Coalition's efforts as well as those of the broader opposition.

Those members of the business elite formally and informally aligned with the SBF (some board members are said to reside in Syria, but their locations are not made public for security reasons) have had unique political and economic incentives to publicly engage in the politics of the revolution. Indeed, it was the revolution that opened up the space for these overwhelmingly external elite to engage in domestic Syrian politics. The opposition's larger strategic goal of building a coalition

of Syrian social forces inside and outside of the country made it possible for these external elite to insert themselves rather seamlessly into the political arena and to organize themselves under opposition structures, such as the SBF.

Conclusions and policy recommendations

As the conflict in Syria has become increasingly militarized and the possibilities for a political solution have grown ever more remote, the role of business actors has emerged as a complicated question. Syria's business community has been affected in various ways by the trajectory of the revolution and the emergence of a war economy. These realities, along with the elite's stratification vis-à-vis the centers of regime power, have largely determined the strategies adopted by different segments of the business community.

First, the business elite in exile had the political and economic incentives to openly endorse the opposition, as it posed little political or economic risk to them. In the event of an opposition victory, they would most certainly assume a role in post-revolution decision-making and be well-positioned to steer the course of reconstruction. Second, the representatives of the integrated elite organically tied to the regime are fully aware that their political and economic fortunes are directly linked to the regime's survival. Should the regime or its remnants lead reconstruction, then they would be in the best position to reap the benefits. Third, while some smaller enterprises have profited from the war economy, most have been adversely affected by the revolution. Because they were already politically weak and unable to affect the revolution in meaningful ways, they have been economically devastated. Fourth, the dependent segment of the business elite has not been naturally positioned to support one political force over another and has not received the assurances and incentives to do so.

European and other international policies toward Syria's business elite should be grounded in pragmatic understandings and expectations of their capacities to affect the course of Syria's revolution. In this sense, the international community should not confuse the self-distancing of these elite from the current political situation with a lack of interest in being involved in policy planning and reconstruction. Rather, next to Syrian experts drawn from a range of different political leanings, these elite should be included in fora of planning and preparation, such as the Friends of Syria Working Group on Reconstruction.

They should also be addressed through a number of short-term measures, chief among them **maintaining communication**: Although many of Syria's elite have not publicly sided with the opposition, lines of communication with them should be maintained. Maintaining communication is especially important because the reality and threat of sanctions looms large for many of the elite. Constant communication by policymakers about whether they are being considered for sanctions, or under what conditions they could be removed from sanctions lists, may not incentivize a shift toward the opposition, but it would certainly help avoid miscommunication around the use of sanctions.

Don't bet on them: The international community has begun to funnel resources into the non-regime-held areas in an attempt to shore-up local structures, economies and provide humanitarian assistance. Businesspeople with knowledge of the Syrian economy and capacities to facilitate such activity have the potential to play a role in facilitating distribution into the non-regime-held areas. However, it is unlikely that they would rush to do so, as this would compromise their existing political strategies.

In the long term, policy measures should include measures such as **encouraging repatriation**: One of the main reconstruction challenges will be in dismantling Syria's war economy. Encouraging the repatriation

of Syria's business elite can help do so and contribute to overall reconstruction efforts. There is no doubt that these elite are willing and have the capacity to contribute substantially to reconstruction. One approach would be to quickly dismantle the sanctions regime, which will help unsettle the war economy. In addition, efforts should be concentrated on two fronts: first, centralizing enterprise rehabilitation as a normative goal of reconstruction efforts; second, advocating for a policy and institutional framework that encourages repatriation. This requires policies that incentivize a return to production, support the reestablishment of markets and provide opportunities for the rehabilitation or acquisition of key production infrastructure, including machinery. Indeed, without a rehabilitation of domestic economic capacity in Syria, all efforts to make the economy conducive for reconstruction and repatriation would be futile. In the absence of such strong incentives, the majority of Syria's industrial enterprises would not have the financial base from which to restart operations, nor would they be willing to repatriate their capital outside of the country.

This point is also underlined by the negative experiences of the Iraqi and Lebanese reconstruction processes. In Iraq, for example, the regional and international private sector played a leading role in reconstruction. This hampered the rehabilitation and development of the domestic business community and created an elite directly tethered to the reconstruction. While private investment and some absorption of public debt will be necessary to finance reconstruction, the policies pursued in this period should draw on – rather than attempt to suppress – the existing business elite structures.

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