

## Burying Heads in Geneva Sands

Without Dismantling the Sectarian Crux of Assad's Rule, Syria Peace Talks Are Unlikely to Usher in Stability

*Khaled Yacoub Oweis*

**A web of corruption involving the Assad family, the security apparatus, and their business cohorts has been a major factor behind the outbreak of the Syrian revolt that started in 2011. UN-facilitated talks between the regime and the opposition are set to convene in Geneva in January 2016, after the refugee crisis in Europe and Russia's entry into the Syrian war prompted a renewed international push to solve the conflict in Vienna. The proposed "thematic" negotiations ambitiously cover humanitarian issues; the military, terrorism, and security; the constitution and political systems; institutions and reconstruction. Germany set up an international fund for the rebuilding of Syria in 2013. But a deal that does not tackle fundamental imbalances linked to the domination of Assad's Alawite sect risks repeating the reconstruction debacle of post-Saddam Iraq, inviting the Sunni majority to scuttle any stabilization and recovery efforts.**

Attacks by the so-called Islamic State on civilian targets have accelerated a de facto rehabilitation of Bashar al-Assad in Europe and the United States. The attacks have also prompted a near abandonment of a 2012 deal between international powers (known as the Geneva Communiqué) to seek a political transition in Syria. A new agreement to end the conflict was reached in November 2015 in Vienna, comprising a wider range of international and regional powers, most importantly Iran. The Vienna statement, to which Germany is a party, calls for a cease-fire and the establishment of "inclusive and non-sectarian governance" as well as a new constitution followed by elections. It emphasizes the objective of a preservation of

state institutions, including the administration, army, and security apparatus. Yet, those organizations are dominated by Assad's minority Alawite sect and have been viciously geared toward internal repression. The result of a hasty international compromise with no Syrian input, the Vienna framework ignores the revolt that preceded the civil war. Therefore, it does not provide the space to address the sectarian security core of the regime, as well as the pervasive, corrupt economic network that has sustained Alawite domination over Syria for five decades. Rather, international actors are mainly motivated by the idea that the army and security services could become a nucleus for fighting the Islamic

State along with pro-regime militia and vetted rebel groups. The approach toward Syrian institutions is also partly driven by the desire not to repeat the experience of the dismantling of the Iraqi army after the 2003 US invasion, which was later seen as a move that swelled the ranks of an insurgency. The legacy of post-Saddam Iraq has curbed US involvement in Syria and will cast a shadow when the Assad regime and opposition representatives are due to meet again in Geneva in early 2016.

### **The “Alawization” of Syria**

The family succession that brought Bashar al-Assad to power in 2000 ushered a concentration of Syria’s economy into the hands of the ruling Alawite elite and business associates, stoking the resentment of the Sunni majority that culminated in the revolt a decade later. Along with limited economic liberalization, Bashar’s rule was marked by a partial lifting of bans on media and communications, but the opposition remained banned and the police state changed little from the iron-fisted rule of his father. The economic liberalization brought to the fore a new class of mostly younger businessmen who had access to Assad when he was being groomed to become president. As “friends of Bashar,” the new class of businessmen milked the economy and national resources, such as oil fields and public land. They joined an older class of profiteers and black marketers nurtured by Hafez al-Assad, who had adopted a mixture of socialism and state capitalism.

By the outbreak of the revolt in March 2011, Syria’s per capita income hovered around US\$2,500, on par with Egypt’s. Unemployment was independently estimated to be up to 25 percent, as liberalization of the economy had done little to improve competitiveness, curb unemployment, or develop the country. Lifting of bans on imports and free enterprise had expanded the scope of unofficial interference in commerce and business. Extortion of merchants, shopkeepers, and regular citizens by a security appa-

ratus dominated by Assad’s Alawite sect had deepened. Corruption plagued the judiciary and bureaucracy. Public procurement contracts and tenders were mostly handed through frontmen to three regime figures. The three were, and remain, Assad’s brother Maher – the most powerful figure in the military – and two of their cousins: Rami Makhlouf and Zuhayr Shalish, who heads the presidential guard. By 2011, dilapidated infrastructure required US\$85 billion to be fixed. Corruption had run the bureaucracy into the ground to the extent that it could not respond to a water crisis that destroyed the agriculture-based economy of eastern Syria. The crisis drove hundreds of thousands of the region’s Arab Sunni and Kurdish inhabitants to flee to Damascus and other cities, contributing to a charged atmosphere by the time of the revolt.

### **Sectarian Corruption and Control**

The water crisis was as much a result of drought as of corruption in a state-run agriculture industry, which helped deplete the water table through the unauthorized digging of wells. The United Nations stepped in with emergency food aid in 2010. In the same year, up to 3 million Syrians – out of a population of around 22 million – had sunk into “extreme poverty,” deprived of food, drinking water, sanitation, health, proper shelter, and education. Economic and human development indicators fell sharply with the start of the civil war.

Yet, the revolt broke out in the relatively prosperous city of Deraa, in the southern Hauran plain. The pro-democracy demonstrations in the city were sparked by arrests made by the secret police of children who had scribbled on walls anti-regime graffiti inspired by Arab Spring slogans. But financial and social resentment had already been building from within the majority Sunni population in Deraa and in other regions. Entrepreneurs, graduates, and professionals had expected to benefit from economic liberalization but were confronted with expansive levels of Alawite-administered

corruption. In the public sector, hiring also favored Alawites. Typically, young Alawite recruits would come from coastal regions into the interior regions with little experience and be appointed as principals of schools or heads of government departments, whereas local Sunnis languished at lower strata. At higher levels, the prime minister and most ministers in successive cabinets under Bashar (and his father) were – and are – still Sunni. But power rests with mostly Alawite department heads throughout the executive apparatus, with backers in the intelligence apparatus as well. Up to 75 percent of managerial positions in the bureaucracy were estimated to have been held by Alawites before the revolt. Their proportion is thought to have increased since then, as the regime tightened its grip on sectors such as state media and Sunnis began to be seen as “suspect elements.” A similar proportion of Alawites dominated the officer corps before defections took place due to the revolt. Military intelligence and air force intelligence provided another layer of control over Sunni foot soldiers.

Secret police branches also interfered in the daily lives of regular Syrians. For example, intelligence operatives would put pressure on public schools to accept students whose parents had paid bribes to security officers to admit their children. In higher education, grants favored Alawites, who were often awarded scholarships, to the disadvantage of more qualified Sunnis or applicants from other minorities, contributing to a degradation of the education system. State universities often produced, for example, English literature graduates who could hardly speak or write English. Public healthcare existed mostly in name, as patients had to bribe doctors and nurses for a semblance of care at most government hospitals. Supplies were stolen to the point that patients at times had to bring their own bandages. Al-Mujtahid, a main hospital in the center of Damascus, was so notoriously bad that it was known as “the butchery.”

### Perceived Property Grab

Sunni frustration was compounded by the seizure of private and public lands by the military, as well as other expropriations seen to be advantageous to the friends of Bashar, who started investing in real estate as restrictions on the sector were lifted.

Alawites were granted sweeping priority in the bureaucracy and military. This prompted greater levels of Alawite migration from the coast to the interior and an encroachment on Sunni properties and public lands. For example, the Fourth Division – a praetorian guards army unit headed by Bashar’s brother Maher – has been blamed for the mass expropriation of Sunni-owned land in the western Damascus districts of Somariya, Daraya, Mouadamiya, and Mezzeh, where housing was built for the mostly Alawite members of the division. Large tracts of empty land in other Syrian cities were cordoned off as belonging to the military and intelligence units. This pushed urban population growth into more crowded quarters and has contributed, since the 1980s, to the growth of illegal buildings, known as *ashwaiyat* (random), which account for more than half of all urban construction across Syria. The *ashwaiyat* residents, mostly comprised of poor Sunnis, often fall prey to extortion by corrupt officials and bureaucrats. In 2007, the governor of Homs, Iyad Ghazal, announced the “Homs Dream” project to remove illegal housing and turn the city into a commercial hub, capitalizing on its location near the border with Lebanon. Ghazal was another friend of Bashar, and the project was seen by Sunnis as a guise for a land grab by the local Alawite population because it proposed demolishing mostly Sunni property in Old Homs. With the advent of the revolt, the project was abandoned. Residents of Old Homs, as well as other Sunni districts in the city, marched in demonstrations and militarized after the regime sent tanks into the city in May 2011. By 2012, most Sunni districts of Homs had fallen to rebels. Loyalist troops and militia sacked the city the following year. The city

was ethnically cleansed, thus turning the city from majority Sunni to majority Alawite. Complicating any possible restoration of Sunni residents' rights, a fire destroyed the city's land registry while it was under the control of the regime in 2013.

### **The Judiciary Compromised**

Property disputes in Homs and elsewhere tarnished the Alawite community, as the sect became seen as benefiting the most from corruption and was identified with the security apparatus, which increasingly interfered in daily life. Opening a business often required bribes to obtain clearances from a plethora of security branches. Syrians underwent "security investigations" for mundane reasons, such as when making or receiving a power of attorney.

In the judiciary, which has been marred by bribery and kangaroo courts, an estimated 2,000 judges were employed before the revolt. Bribes were paid to security operatives who would order judges to skew verdicts. For example, a Western oil services company was swindled out of millions of dollars before the revolt by a member of the rubberstamp Syrian parliament who did business on behalf of the company in Iraq. The company approached an intermediary who was a protégé of Assef Shawkat, a security chief who was killed in 2012 and also Assad's brother-in-law. In return for a cut of any money recouped, Shawkat offered to threaten the businessman that his parliamentary immunity would be lifted and that he would be prosecuted.

If a defendant and a plaintiff both resorted to bribes, the process turned into a de facto auction for the verdict. In one case, a political dissident "convinced" the judge presiding over the dissident's trial to hand down a three-year sentence – instead of a standard five years – by arranging to pay for construction materials at a summer house the judge was building. In the criminal justice system, Alawites were rarely prosecuted because many in the community have family in the intelligence apparatus. The security

apparatus itself was above the law, according to a law decreed during the rule of Hafez al-Assad. The law was scrapped during reforms to placate demonstrators in April 2011, but in practice, the regime's security underpinnings have not been subject to any domestic persecution.

### **Regime's Smuggling Base**

Traditionally, smuggling has been the main source of windfall profits for the ruling hierarchy, dipping during liberalization from 2000 to 2011 and resuming after the revolt. Smuggling rings – in cahoots with the military and the intelligence apparatus – filled a vacuum that had developed during broader bans on imports in the 1970s and 1980s. Numbering in the thousands, smugglers brought in goods, mainly from across the border with Lebanon. They regularly passed through, or next to, border crossings staffed by customs officials linked to Assad's brother Maher, who is thought to have dominated the cigarette smuggling trade into Syria. The smuggled goods covered everything from cement, bread, medicine, steel for construction, and cosmetics to toilet paper. Smuggling shops, owned mostly by Alawites from the coastal mountains, sprouted up near the Fourth Division headquarters in the district of Somariya on the western edge of Damascus. The illicit shops in Somariya and elsewhere kept operating despite the lifting of restrictions on imports under liberalization. New supplies came through Makhlof, who was awarded a monopoly to build and operate border and airport duty-free shops. The duty-free goods were supposed to be taken outside Syria and be subject to tariffs if they were taken inside the country. Instead, the smugglers used Makhlof's duty-free depots on the border with Lebanon and Jordan to smuggle goods into Syria, with the authorities turning a blind eye to any activity sourced to Makhlof. Smuggling also worked from Syria to Lebanon under the supervision of the Syrian army and intelligence units. Subsidized Syrian diesel –

often shipped in trucks by Syrian soldiers on a “military lane” across the Jdeideh–Masnaa border crossing – was sold for triple the price in Lebanon.

But illicit money was also made in ports, oil and gas fields, telecommunications, and infrastructure. Latakia, Syria’s biggest port, has been the domain of various strands of the Assad family since the 1970s, when the port became controlled by Jamil al-Assad, a brother of Hafez al-Assad. The takeover of the ports by the Assads was twinned by the family’s control of the customs department. A job at customs – such as an inspector at one of the several border crossings with Lebanon – was so prized that it was practically auctioned. At Latakia and the port of Tartous to the south, extorting cargo owners has been a lucrative business, on top of illicit port activity. Vessels carrying foodstuffs would be impounded on dubious claims of violating Syrian standards. The owners would have to pay bribes for the cargo to be released or face demurrage and other costs related to the forced delay of the ship. If a cargo owner could not pay, a friend of Bashar would offer to buy the cargo for well-below market price, then use his connections to end the cargo’s seizure and make a profit. To give but one example, the extortion extended to a 150,000-ton wheat purchase from France, agreed on during a visit by Assad to Paris in 2009. The last shipment in the deal was stopped at Tartous. It took four months to resolve the issue, costing the French seller €1 million in shipping charges.

### **Corruption’s Icon: Makhoulf**

In the wider economy, revenue streams that developed as a result of liberalization were awarded to Makhoulf in the form of outright or quasi-monopolies. The bonanza started in the telecom sector in 2001 with Makhoulf’s company Syriatel being granted one of two mobile phone concessions. The second license went to the Mikati family, an Assad family protégé in Lebanon. The way the mobile phone sector was being handed

to Assad’s cronies prompted public criticism from Aref Dalila, a prominent Syrian economist. For speaking out, Dalila ended up spending seven years in jail. But Makhoulf and a new class of crony capitalists expanded their wealth and connections to the leadership and security apparatus to levels that raised the stakes and left little to others. This contrasted with the economy under Hafez al-Assad, which offered fewer opportunities for corruption because it was mostly closed.

In the 2006–2007 period, Makhoulf led an effort to consolidate the regime’s capital, setting up the larger of two holding companies that comprised the friends of Bashar. The two firms, Cham Holding and Souria Holding, had cross-share ownership, and both embarked on real estate projects and infrastructure takeovers. Controlled by Makhoulf, Cham Holding was the more aggressive one, building a large headquarters at the southern entrance of Damascus. But US sanctions imposed on Makhoulf in 2008, specifically for corruption, limited his commercial attraction to investors. The measures against Makhoulf upped the ante from the sanctions first imposed on the regime in 2004 for its suspected role behind violence in Lebanon and Iraq, as well as support for militant groups. They prohibited the export of US goods to Syria, other than food and medicine, and froze assets of Syrian entities and individuals suspected of involvement in “terrorism” and weapons of mass destructions.

In an attempt to raise his international business stature, Makhoulf tried in the same year to sell Syriatel to Turkish mobile operator Turkcell for an estimated US\$1 billion. The deal was aborted because Turkcell, which came under pressure from Washington, apparently chose not to risk American wrath. Additional US and European sanctions were imposed on Makhoulf and other Assad cronies two months after the start of the revolt in 2011 in response to the military crackdown on the peaceful protest movement. Whatever damage the new sanctions caused, it appeared manageable, as

Makhlouf and others in the ruling hierarchy became players in the war economy, enjoying continued access to the commercial hubs of Dubai and Beirut. Syriatel has also remained a cash cow for the Assad regime.

In line with the younger generation of businessmen who befriended Assad, Makhlouf owes his rise to his father, Mohammad Makhlouf, who is the main power behind the scenes in the state and the economy, and the brother of Assad's mother, Anisa. He is thought to have made hundreds of millions of dollars in the 2006–2008 period from the sale of a company called Dublin Energy, which comprised little more than an oil concession in Syria, to a Chinese firm. After the deal, the Makhloufs remained active in the oil sector through service contracts and Gulfsands, a London-listed company with oil exploration and production rights in the eastern province of Hasakah. By 2014, Hasakah province was mostly captured by Kurdish militia and the Islamic State.

Mohammad Makhlouf controlled key appointments in government as well as in the justice system and the central bank. For example, the current central bank governor, Adib Mayaleh, is a protégé of the Makhloufs. Similar to Iraq under Saddam Hussein, the bank has effectively been the personal financial house of the ruling clique, together with state-owned banks. In 2005, the Syrian pound weakened following the assassination of Lebanese statesman Rafik Hariri. Zouhair Sahloul, Syria's main black-market money changer, was apparently brought into the central bank and given access to conduct forex operations with the country's dollar reserves to halt the slide of the local currency. Sahloul was linked to the Makhloufs. He helped the Syrian pound recover, but he is thought to have profited handsomely from his power to influence the exchange rate by deciding when to pump – and how much – hard currency reserves into the market. In 2006, the government lifted bans on private money exchange companies and Sahloul opened a chain of currency exchange bureaus.

## **New Faces in War Economy**

The exchange rate plummeted from 48 Syrian pounds to the US dollar on the eve of the revolt to 394 Syrian pounds to the dollar by November 2015. The scope for commerce thus has sharply narrowed, and businessmen with substantial operations outside Syria, such as Vienna-based Nabil Kuzbari, have mostly chosen to distance themselves from Assad. For them, the threat of Western sanctions appear too damaging to their business interests that depend, among other factors, on access to Europe. Among the prominent businessmen, a handful have actively supported the opposition. Most notably has been Ayman Asfari, head of the oil services firm Petrofac, which operates from London. Asfari is also apparently acceptable to Russia – Assad's most powerful backer – as a representative of what Moscow regards as non-terrorist opposition. In the Gulf, Ghassan Abboud, who made his fortune in trading in the United Arab Emirates, owns Orient Television, the opposition's main media outlet. Abboud also set up a network of charity hospitals and schools in rebel areas (for an earlier assessment of the interests and positioning of Syria's business elite, see SWP Comments 22/2013).

Others jumped at the opportunities provided by the war economy, chief among which has been a return to the smuggling heydays of Hafez al-Assad's rule. Sanctions and hostilities between Turkey and the Syrian regime have restored Lebanon as the main supply route to Damascus and other loyalist areas. The Lebanese Shi'ite militia Hezbollah and its influence on the Lebanese police and intelligence units patrolling the border has facilitated the movement of goods. On the other side, Turkey has been the main supplier to rebel-controlled areas. A new warlord-businessmen class active in importing fuel, other daily necessities, and consumer items have thus emerged in both camps, as well as in Islamic State territory. In Damascus, Ayham al-Assad, once a junior member of the Assad clan, became a chief smuggler of diesel and other goods to the capital. Ayman Jaber, a

previously small regime operative from Latakia, supplies diesel to the coastal region.

Signaling a change of faces since the civil war, new elections and government appointments to the board of the Aleppo Chamber of Commerce in 2014 brought in 10 new members out of 18. At the Damascus Chamber of Commerce, 15 out of its 18 top tier were replaced in the same year. The two organizations have long been the who's who of the regime's business associates. The changes reflect attrition in the regime's longtime partners, as well as the emergence of new frontmen and previously unheard of figures now making money in the war economy. At the same time, the core regime tier appears to have adapted. Makhlof in particular has taken a lower profile and is thought to be operating behind new frontmen.

### **Lone Reformer Turned Mediator**

Before the revolt, economic policy had been the domain of Abdallah al-Dardari, deputy prime minister for economic affairs. Dardari believed that reform of the economy would restore Syria's middle class and ultimately usher in political change. A Sunni, Dardari privately criticized the Makhloufs and others he called "mafias." But he was powerless to stop the liberalization from becoming another tool of Alawite domination. Indeed, the economic opening he championed provided those who made fortunes from smuggling and other illicit activities with the means to channel their liquidity. As a government official, what Dardari was able to do was within the technical sphere, such as writing anti-trust and other rules and regulations that did not apply to the security apparatus and ruling elite. Corruption and the inherent sectarianism of the system also remained beyond Dardari's mandate. In one instance in 2010, a Western investor in a Syrian company asked Dardari for help in fending off government officials with links to intelligence who were hampering business. Dardari

made it clear that he could not interfere in a matter that could put him at odds with the security apparatus.

Dardari left the regime after the outbreak of the revolt and joined the United Nations Economic and Social Commission for Western Asia (ESCWA), where he has been in charge of the "national agenda for the future of Syria." Germany has contributed around US\$2 million in financing for the project. Under Dardari's supervision, bureaucrats in the Assad government and some members of the opposition – mostly with a research background – have met several times since 2013. The meetings were billed as a "track two" effort, compared to the international diplomatic efforts to end the war. Among the opposition, many view Dardari with unease and consider the UN project to be a vehicle for his self-promotion. Still, it helped raise Dardari's profile as a centrist and crucial figure in any settlement.

More importantly, Dardari has steered clear from raising issues linked to the core of Syria's economic and political order, such as sectarianism, monopolies, the role of the security apparatus, and Sunni-Alawite property disputes. Even if substantive issues were to be raised, no one in the Assad regime – except the very top of the ruling circle – would dare discuss them.

### **Conclusion and Recommendations**

A common chant by demonstrators in the early months of the Syrian revolt was "Rami Makhlof and the 40 thieves." But the friends of Bashar would not have achieved control over Syria's economy without partnering with the security apparatus, which has been responsible for the killing, torture, rape, and disappearance of countless Syrians since the revolt – a fact nowadays often forgotten by the international community due to the rise of al-Qaeda-affiliated groups and the Islamic State. Yet, without structural changes to Alawite domination and an end to the disenfranchisement of the country's Sunni majority and the system of control and corruption, no sustained reso-

lution to the Syrian civil war is likely, even if a deal is struck in Geneva.

Indeed the framework for next year's Geneva talks between the regime and the opposition appears to set the stage for a deal that would expand participation in the government and parliament but would not address the structural impediments to an inclusive and less repressive and corrupt system. Some Sunnis could sign on to such a compromise, but it would do little to halt the larger insurgency or rebuild the country and its institutions, and would instead allow the failed old system to continue.

For a solution that could garner significant Sunni backing as well as broader Syrian support, Geneva would need to focus on dismantling the Alawite deep state and the business-security nexus that has financed it. Otherwise, reconstruction could end up involving the same robber barons who rode roughshod over reformists such as Dardari.

But only pressure put on the regime by international sponsors of the talks, particularly Russia, could result in a peaceful dismantling of the plethora of sectarian security outfits, which have had close links with Moscow since the Alawite takeover of power in the 1960s. In this regard, amnesty could encourage Alawites in the security apparatus to leave office, especially those in the higher ranks who have amassed the most loot. A compensation mechanism would also have to be negotiated to deal with land disputes, one that allows Alawites to keep property they may have acquired illegally before the revolt, since a major reason that Alawites stick with the regime is the fear of a restoration of property rights to their former owners. But no reconciliation can be achieved without an overhaul of the legal system. This would need to include an agreement to identify the most corrupt judges and those closely linked with security and to consign them to retirement.

In the field of post-conflict reconstruction, Iraq is a cautionary tale. Billions of dollars were spent for rebuilding, but corruption deepened and infrastructure barely improved from the catastrophic levels ex-

perienced during UN sanctions from 1990 to 2003. Iraq's new rulers have done little to establish better governance. In addition, jihadists fed off the failure of the government to integrate Sunnis in the political system. Among the lessons of Iraq is the damage dealt to the remaining technical talent in the bureaucracy through a de-Baathification policy that extracted members of the Baath Party across the bureaucracy, regardless of rank and degree of involvement in the Saddam era. Some technical staff eventually attended ideological rehabilitation courses offered by post-Saddam governments and re-joined the bureaucracy. But many soon left because they could not cope with what they regarded as a suffocating atmosphere. Similar to Saddam's Iraq, many Baathists officially joined Syria's Baath Party to increase their leverage in government employment. The party itself has been ruling in name only, with the top Alawite tiers taking over real power. The proposed Syria talks should focus on how to redress the imbalances in the bureaucracy without replacing Alawite sectarianism with Sunni sectarianism.

In addition, it is imperative to curb the existing monopolies. If the fragmentation of Syria is halted and large-scale projects were to become feasible, reconstruction funds would need to be kept away from an untested post-conflict government and placed under international administration, which could award contracts to Syrian firms only if they meet disclosure and anti-corruption criteria. But the start of reconstruction is likely to be small-scale in areas where ceasefires prove to hold. Already there exists a possible nucleus to identify and meet local needs in the form of the Syria Recovery Trust Fund. Set up under the auspices of Germany and the United Arab Emirates in 2013, the fund was established as an international reconstruction mechanism, but it has been financing only small projects in non-regime areas, due to a lack of security and an active opposition government on the ground.

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**SWP**  
Stiftung Wissenschaft und Politik  
German Institute for International and Security Affairs

Ludwigkirchplatz 3-4  
10719 Berlin  
Telephone +49 30 880 07-0  
Fax +49 30 880 07-100  
www.swp-berlin.org  
swp@swp-berlin.org

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