

# **Explaining Syria**

by

Esmond Wei

An honors thesis submitted in partial fulfillment

of the requirements for the degree of

Bachelor of Science

Undergraduate College

Leonard N. Stern School of Business

New York University

May 2015

Professor Marti G. Subrahmanyam

Faculty Adviser

Professor Joseph Foudy

Thesis Adviser

## **Acknowledgments**

I would like to extend my gratitude and appreciation to my thesis adviser, Professor Joseph Foudy. Throughout this entire process of formulating, conducting, and articulating this thesis, Professor Foudy has been there to provide insight, direction, and resources to make this entire endeavor possible. I appreciate all that he has done throughout the school year and recognize that none of this would be possible without him.

I would also like to thank Professor Marti Subrahmanyam for his commitment to the Stern Honors Program. It was truly an unique program to participate in and it would not have been possible without Professor Subrahmanyam and others committing to the program in the manner that they have.

## Explaining Syria

**Abstract:** The Middle-East has historically been a hotbed of tension, instability, and conflict.

Yet, despite the volatile dynamics in the region, until recent years, the region has been governed surprisingly resilient regimes. Only recently, did the Arab Spring dislodge these resilient governments. As the spotlight is currently on the world's response against the Islamic State and the ongoing civil war in Syria, the popular explanation to this conflict is that sectarianism drove Syria into this crisis. However, we believe that sectarianism alone did not cause the war. Rather, it was a regime that enacted economic policies that strengthened its grip on power but sacrificed long-term effects on growth. Using the framework set by Daron Acemoglu and James A. Robinson in their book, *Why Nations Fail*, we have identified specific policies and events during the al-Assad family's regime that made Syria into an extractive institution. In the end, the Arab Spring merely ignited conflict in the country as discontent against Syrian leadership has long been brewing.

## **I. Volatile Region, Resilient Regimes**

Under the reign of Suleiman the Magnificent in the 1500s, the Ottoman Empire was at the peak of its power controlling most of the North Africa, parts of Europe, and the Middle East—with the exception of what is known today as Saudi Arabia.<sup>1</sup> When the Ottoman Empire dissolved in 1922, the Middle East was swept with a wave of Arab Nationalism that conflicted with European colonial interests in the region. While history has blurred lines, the fall of the Ottoman Empire can be viewed as the starting point of modern day conflict in the Middle East.

For the past century, the Middle East has been thrown from crisis to crisis. Whether it involves countries fighting one another, religious groups battling for power, or governments trying to remain in power, the Middle East is a region accustomed to violence. Yet, despite all the instability, a majority of the countries in the region are ruled by resilient regimes that gripped onto power for decades (Figure 1). As evident by Hosni Mubarak's grip of Egypt from 1981 until recently; Ayatollah Khomeini rule of Iran since 1979; the House of Saud's monarchy in modern day Saudi Arabia since the 1900s; and the Assad family's control of Syria since 1971; the Middle East, while volatile, is home to many resilient regimes. Although the Arab Spring toppled a handful of resilient regimes, there are still many autocracies in the region that have a firm grip on power.

In explaining how these governments can stay in power despite all the conflict the region experiences, the succinct explanation is that these regimes enact economic and political policies

---

<sup>1</sup> "Ottoman Empire." *BBC News*. BBC, n.d. Web. 18 May 2015.

that consolidate power to the ruling elite. Saudi Arabia, for instance, has no income tax and citizens receive a check derived from oil profits from the state. That is, since there is no taxation in Saudi Arabia, there is also no representation.<sup>2</sup> In this paper, we examine the economic and political policies in Syria that allowed the Assad family to consolidate power yet inadvertently paved the way for the country's current civil war and the rise of the Islamic State. While the Syrian policies we examine may be unique and specific to Syria, the objective of the policies are no different than many other policies instated by authoritarian regimes across the Middle East.

## **II. Ottoman Rule, Brief Independence, & French Mandate**

Historically, Syria was a region that included current day Syria, Israel, Jordan, and Lebanon (Figure 2). Considered to be part of the cradle of civilization, parts of Syria have been under the control of iconic historical figures such as Alexander the Great. In 1516, the Ottoman Empire, led by Sultan Selim I conquered Syria. Due to the Ottoman's vast empire, the Ottomans divided Syria into provinces ruled by pashas (a high ranking official in the Ottoman Empire) whom governed the region for the next 400 years.<sup>3</sup> Furthermore, the Ottomans allowed its subjects to live by its own religious code and thus different citizens were subject their respective millets.

Although the Syrian economy struggled under Ottoman rule, cities such as Aleppo brought European traders to the region. While the Europeans were interested in spices, fruits, and textiles, the Europeans inevitably introduced Western ideals to the country<sup>4</sup>. As a result of its trade with Syria, starting from the 1500s, France established interests in the country that would eventually lead its colonization in the 1900s.

---

<sup>2</sup> "No Taxation, No Representation." *The Economist*. The Economist Newspaper, 23 Mar. 2002. Web. 18 May 2015.

<sup>3</sup> Collelo, Thomas. "Syria - Ottoman Empire." *Syria: A Country Study*. Library of Congress, n.d. Web. 18 May 2015.

<sup>4</sup> Collelo, Thomas. "Syria - Ottoman Empire." *Syria: A Country Study*. Library of Congress, n.d. Web. 18 May 2015.

On June 28<sup>th</sup>, 1914, Austrian Archduke Franz Ferdinand was assassinated in Bosnia thereby igniting the First World War. Soon after, alliances were drawn with the Ottoman Empire siding with the Germany and Austria thereby creating the Central Powers. In the midst of the war, British Army officer, T.E. Lawrence—nicknamed Lawrence of Arabia—engineered an Arab revolt against the Ottoman Empire. Convinced that a rebellion would lead to Arab independence, Lawrence selected Faisal al-Hashimi (King Faisal I) to lead the rebel army and in 1918, Faisal I conquered Damascus and established the Arab Kingdom of Syria—the first modern Arab state.<sup>5</sup>

Yet, hopes of an independent Arab world would be short-lived, as France maintained that Syria belonged to the French according to the Sykes-Picot Agreement. In 1920, France invaded Syria and established the French Mandate for Syria and Lebanon (which includes modern day Syria and Lebanon)<sup>6</sup>. In an attempt to subdue Arab nationalism in its de-facto colony, France divided the country into semiautonomous areas: State of Aleppo, State of Damascus, Jabal Druze, Greater Lebanon, Alawite State, and Sanjak of Alexandretta and empowered religious minority groups such as the Maronite Christians and Alawites. The French also established an imperialistic institution as Article 11 of the French Mandate for Syria and Lebanon gave the French the right to implement “taxes and custom duties as it may consider necessary” and take steps to “ensure the development of the natural resources.”<sup>7</sup>

---

<sup>5</sup> "Man of the Moment." *The Economist*. The Economist Newspaper, 08 Feb. 2014. Web. 18 May 2015.

<sup>6</sup> Polk, William R. "Understanding Syria: From Pre-Civil War to Post-Assad." *The Atlantic*. Atlantic Media Company, 10 Dec. 2013. Web. 18 May 2015.

<sup>7</sup> "French Mandate For Syria and the Lebanon." JSTOR, n.d. Web.

As the French Mandate for Syria and Lebanon was imperialistic in nature, mandate was set up to enrich the French. In *Why Nations Fail*, Acemoglu and Robinson define an extractive institution as an institution that concentrates power into the hands of the few to extract wealth from the rest of the population. While the French did not exactly create a classical extractive institution as they deconsolidated power, the colonizer designed a system meant to take economic advantage of Syria thereby dawning the modern day vicious cycle of extractive institutions in the country.

Twenty years after the French mandate, in 1940, Syria ends up under the control of Vichy France prompting the Allied offensive to occupy Syria in 1941. While Syria was technically an independent state in 1941, the French still occupied the region until April 17<sup>th</sup>, 1946 when Syria finally became an independent state. An independent Syria, however, was about to experience multiple coups, governments, and acts of violence.

### **III. Independent Syria Marred by Coups and the United Arab Republic**

In the midst of achieving independence from France, ethnic and regional groups in Syria forged an unlikely alliance that soon dissipated after the withdrawal of the French in 1946. President Shukri al-Quwatli, post-independent Syria's first president presided over a fragmented country.

The internal conflict amongst varying groups in Syria was put on hold in 1948 when Syria entered the Arab-Israeli War. Following Syria's defeat in the 1948 war, junior members of the Syrian government were discontent with the country's leadership and a coup was launched in March 1949 by army chief of staff, Brigadier General Husni al-Za'im. The coup by Husni al-

Za'im would subsequently trigger a series of coups that would define Syria for most of the 20<sup>th</sup> century.

In August 1949, Brigadier General Sami al-Hinnawi launched another coup and gave control of Syria to civilian leaders. Four months later, Colonel Adib Shishakli staged another coup and established dictatorial control of the country. In February 1954, Shishakli's opponents initiated another coup and restored the 1949 government with President al-Quwatli back at the helm.

By this time, leftwinged parties such as the Syrian Communist Party and the Ba'ath Party began to dominate the political environment and in 1957, the Ba'ath Party, in alliance with the Communist Party, was in control of Syria. However, soon after, tensions between the two parties developed as Communist influence was increasing. In an attempt to prevent a communist takeover of Syria, President al-Quwatli and the Ba'ath Party struck a deal with Egyptian president Gamal Abdel Nasser. On February 1958, Syria and Egypt would unify and form the United Arab Republic with Nasser serving as president of the new state.

While the Ba'ath Party thought the UAR would be run as a federation, President Nasser wanted to consolidate power that ensured Egyptian dominance.<sup>8</sup> A secret military committee including Hafez al-Assad soon began to plot Syria's future in the UAR. While the committee initially did not consider launching a coup, in September 1961, a military coup was staged and the UAR was dissolved.

---

<sup>8</sup> Khoury, Philip. "Review." *www.jstor.org*. JSTOR, Mar. 2001. Web.



For the next decade, Syria would experience several coups with members of the Ba'ath party—specifically members of the military committee—jockeying for power.

#### **IV. A Decade of Coups and the Rise of Hafez al-Assad**

After the dissolution of the UAR, the military ruled Syria. In March 1963, military members loyal to the Ba'ath party including Hafez al-Assad staged a coup that marked the Ba'ath party's dominance of Syrian politics.<sup>9</sup> The Ba'athist controlled government immediately issued Decree #51 which declared Syria in a state of emergency (that would not be lifted until 2011) effectively created a one-party state and established martial law that gave the government control in virtually all aspects of its citizens' lives.<sup>10</sup> In this new government, Hafez al-Assad was named defense minister—which he would later leverage to become president.

If Syria's internal struggles hurled Assad into a position of power, it was Syria's external conflicts that cemented his reputation as a leader. On June 5<sup>th</sup>, 1967, Israel launched airstrikes decimating the Egyptian Air Force thereby kicking off the Six Day War. The war resulted in Syria losing the Golan Heights—a fertile piece of land historically coveted by many kingdoms. The results of the Six Day War embarrassed Syrian officials and as defense minister, Hafez al-Assad was determined to retake Golan—a goal he would pass on to Bashar al-Assad. Blaming Syria's de facto leader, Salah Jadid, for the loss of Golan, Hafez al-Assad suddenly developed a desire to become Syria's next leader. While Jadid was focused on the internal politics of Syria, Assad—possibly due to his military background and the loss of Golan—focused on regional politics and envisioned Syria leading the containment of Israel.

---

<sup>9</sup> *Syria and the Assad Family: The History behind Bashar Al-Assad's Rise to Power and the Civil War*. S.l.: Charles River Editors, 2013. Print.

<sup>10</sup> "Emergency Law – Legislative Decree #51." *PANDA People Against The NDAA*. N.p., n.d. Web. 18 May 2015.

The Jordanian Civil War (Black September) in 1970 allowed Assad to seize control of Syria. As Syrian military intervention in the civil war failed, Assad used this event to stage a military coup in November 1970. Jadid supporters were subsequently arrested; Alawites were promoted in the military and Ba'ath Party; and modern day Syria's most resilient regime was established.<sup>11</sup>

Prior to becoming president, Hafez al-Assad experienced decades of military coups and regional conflicts centering on Israel all the while serving as an officer in the Syrian Air Force. As a product of his past experiences, Assad considered the military the most important institution of the state—although Assad was cunning enough to create the illusion that independent actors controlled the military and government. Furthermore, as Assad virtually spent the early part of his life dealing with regional issues, Assad would later use his reactive yet passive foreign policies as a political tactic to consolidate power in Syria.

In this paper, we will analyze in depth how the Assad regime used economic policies as a reaction to political events in order to cement their power in the short run—eventually triggering the conflict the country faces today.

## **V. The Early Presidency of Hafez al-Assad: Consolidating Power**

Disguising himself as a reformer, Hafez al-Assad titled his coup, “The Corrective Movement” and to establish some sort of legitimacy, served as Prime Minister for six months putting Ahmad al-Khatib (a Sunni) as president. In 1971, Hafez al-Assad is elected president with no opposition.

---

<sup>11</sup> *Syria and the Assad Family: The History behind Bashar Al-Assad's Rise to Power and the Civil War*. S.l.: Charles River Editors, 2013. Print.

Recognizing that multiple coups created disconnect between the citizens and the government, Hafez al-Assad began his national reconciliation campaign to try and garner populous support. A reconciliation campaign, however, was not enough for Assad to establish a firm control of Syria. To consolidate power in Syria, Assad implements strikes implicit economic and political ‘agreements’ with particular group in the country.

From 1970 to 1978, Assad sets his economic policy towards what Bassam Haddad labels as: “state-business rapprochement.”<sup>12</sup> Seeing that there was still opposition in urban communities due to his appeal to rural Syria, Assad forms an implied alliance with the “ ‘moderate’ Damascene bourgeoisie.”<sup>13</sup> To appease the powerful business elite, the regime allowed registered members of the Exceptional Import System to import banned goods up to a certain quantity. Furthermore, the regime created free trade zones that shield businesses from trade and currency regulations.<sup>14</sup> While Assad publically hailed these policies as part of his liberalization plan, in practice, only selected businesses by the regime can access these liberal policies. Thus, in order to tap into Syria’s new liberal policies, select business groups including the Damascene bourgeoisie were compelled to strike an ‘alliance’ with Assad. By tying the new business elite’s fate with his own fate, Assad is able to quell down the strongest opposition against his regime.

To monitor and control the private sector, the regime allotted state sectors to “domains among the various centers of power in the army, party, bureaucracy, and most notably, the security

---

<sup>12</sup> Haddad, Bassam. *Business Networks in Syria: The Political Economy of Authoritarian Resilience*. Stanford, CA: Stanford UP, 2012. Print.

<sup>13</sup> Haddad, Bassam. *Business Networks in Syria: The Political Economy of Authoritarian Resilience*. Stanford, CA: Stanford UP, 2012. Print.

<sup>14</sup>Perthes, Volker. *The Political Economy of Syria under Assad*. London: I.B. Tauris, 1997. Print.

apparatus.”<sup>15</sup> Because of the private sector’s reliance and interaction with the public sector, the regime could effectively communicate and monitor, leading members of the private sector. Moreover, as the security apparatus controls the public sector, business elites are further compelled to support the regime. Through the economic policy of selective liberalization and allocation of the public sector, the regime is able to preserve itself in the short run.

Plotting to retake their former territory, in October 1973, Egypt and Syria launch surprise attacks on the Sinai Peninsula and the Golan Heights, respectively, thereby commencing the Yom Kippur war. Although Israel won the war, Arab aid subsequently poured into Syria.

Compounded with rising oil prices, Syria began to experience a surplus of capital inflows and transforms into a rentier state (Figure 3). Suddenly, the government created a massive budget and used the newly accumulated capital on public expenditures as evident by the doubling of gross capital formation in 1973 compared to 1970 (Figure 4). According to Perthes in *The Political Economy of Syria under Asad*, “throughout the 1970s at least, some 65 percent of all investments and some 80 percent of all public investments were actually financed from external resources.”<sup>16</sup>

However, this capital was invested inefficiently due to what Haddad calls “investment chaos”. Because Arab aid had a short lifespan, Syrian leaders—eager to keep Syria on the map amongst its Arab peers—invested in “under-studied projects so as not to lose the aid that had been earmarked for Syria.”<sup>17</sup> Haddad further gives an example of failed shoe factories were created in one area, which in turn, crowded out factories that made quality goods. In essence, the regime

---

<sup>15</sup> Haddad, Bassam. *Business Networks in Syria: The Political Economy of Authoritarian Resilience*. Stanford, CA: Stanford UP, 2012. Print.

<sup>16</sup> Perthes, Volker. *The Political Economy of Syria under Asad*. London: I.B. Tauris, 1997. Print.

<sup>17</sup> Haddad, Bassam. *Business Networks in Syria: The Political Economy of Authoritarian Resilience*. Stanford, CA: Stanford UP, 2012. Print.

used the aid to provide short-term jobs in specific neighborhoods to appease citizens that were angry at rampant corruption in Syria.<sup>18</sup>

As the public sector engaged in foreign trade, the state-owned enterprises had to rely on previous private businessmen to arbitrate between foreign firms and the state. These businessmen therefore cooperated and partnered with the regime that would establish a new economic model in which the regime provided access and favorability for the businessmen to invest their capital.<sup>19</sup>

In 1976, Lebanon, which historically has close ties to Syria, erupted into civil war. The Maronite Christians—then at power—called for Syria to intervene. Seeing that Syria’s political and economic interest would be affected if the Maronites were not in power, Assad ordered Syrian troops to Lebanon to preserve the status quo. Already experiencing waning economic growth due to corruption, Syria’s intervention could come at the price of Arab states reducing “the flow of oil to Syria as punishment for Assad’s use of the Syrian military in Lebanon.”<sup>20</sup>

Losing popular support, Assad attempted to crack down on corruption by forming the “Committee for Investigation of Illegal Profits, ‘to investigate crimes of bribery imposition of influence, embezzlement, exploitation of office and illegal profits.’”<sup>21</sup> However, Assad faced a dilemma in his anti-corruption drive that highlights the problem with how Assad remains in

---

<sup>18</sup> Haddad, Bassam. *Business Networks in Syria: The Political Economy of Authoritarian Resilience*. Stanford, CA: Stanford UP, 2012. Print.

<sup>19</sup> Haddad, Bassam. *Business Networks in Syria: The Political Economy of Authoritarian Resilience*. Stanford, CA: Stanford UP, 2012. Print.

<sup>20</sup> *Syria and the Assad Family: The History behind Bashar Al-Assad's Rise to Power and the Civil War*. S.I.: Charles River Editors, 2013. Print.

<sup>21</sup> Dam, Nikolaos Van. *The Struggle for Power in Syria: Politics and Society under Assad and the Ba'th Party*. London: I.B. Tauris, 2011. Print.

power. Since high level military officers including Hafez al-Assad's brother, Rif'at al-Assad were knee-deep in corrupt practices, the president would have to crack down on his own supporters which would threaten his power structure. Assad's rise to power created a catch 22: "power was essential if the necessary drastic social changes entailing the suppression of sectarian, regional and tribal loyalties, were to be effected; on the other hand, maintenance of that power entailed dependence on those same loyalties thus hindering their suppression."<sup>22</sup>

As a result of a struggling economy, more social problems—particularly sectarian issues—began to arise and the regime's economic and political policy evolved and adapted to this new climate.

## **VI. Hafez Al-Assad's Challenges To Power**

When Hafez al-Assad took control of the country in 1970, he framed himself as a leader that represents the rural population. Feeling that cooperation with the business elite was necessary to hold onto power, however, Assad began to detach and alienate himself "from the social base of the Ba'ath party" and the general population.<sup>23</sup>

Around 1978, the Syrian economy began to experience a shortage of raw materials and consumer products. To regain private sector support, the regime engaged in what Haddad calls, "mixed sector ventures—which involves the cooperation of the state and select members of the business community."<sup>24</sup> Due to public outcry on corruption, business leaders could not operate in the open

---

<sup>22</sup> Dam, Nikolaos Van. *The Struggle for Power in Syria: Politics and Society under Asad and the Ba'th Party*. London: I.B. Tauris, 2011. Print.

<sup>23</sup> Haddad, Bassam. *Business Networks in Syria: The Political Economy of Authoritarian Resilience*. Stanford, CA: Stanford UP, 2012. Print.

<sup>24</sup> Haddad, Bassam. *Business Networks in Syria: The Political Economy of Authoritarian Resilience*. Stanford, CA: Stanford UP, 2012. Print.

and thus began operating underground and developed an informal relationship with the regime. Furthermore, “officials had to turn a blind eye to such” ‘illegal’ economy, since the regime wanted to champion growth through the public sector<sup>25</sup>. The transition to a shadow economy was relatively seamless as Rif’at al-Assad and his officers were already smuggling goods from Lebanon into Syria and established the infrastructure and model for a shadow economy.

Meanwhile, because of economic problems, social problems were dramatically worsening—especially sectarian issues. In February of 1979, the Pahlavi dynasty was overthrown in Iran and the Islamic Republic of Iran was established. As a result of this regional development, Muslims groups in Syria—most notably, the Muslim Brotherhood—began a series of revolts that would further insulate Assad’s economic and political policy to favor a select group of supporters.

On June 16<sup>th</sup>, 1979, 32 cadets at the Aleppo Artillery School were gunned down and the Syrian government quickly accused the Muslim Brotherhood of carrying out the attacks.<sup>26</sup> The government then executed 15 Islamic prisoners and a series of insurgencies and revolts began appearing in Syria. On June 26<sup>th</sup>, 1980, the insurgency reached its peak as a failed assassination attempt on Assad was carried out at the Guest Palace in Damascus. The next morning, soldiers under Rif’at al-Assad’s command entered Tadmor Prison outside Homs and executed around 500 inmates believed to have been associated with the Muslim Brotherhood.<sup>27</sup> The regime,

---

<sup>25</sup> Haddad, Bassam. *Business Networks in Syria: The Political Economy of Authoritarian Resilience*. Stanford, CA: Stanford UP, 2012. Print.

<sup>26</sup> "The Massacre of the Military Artillery School at Aleppo – Special Report." *Syrian Human Rights Committee*. N.p., n.d. Web.

<sup>27</sup> Hilleary, Cecily. "Syria’s Tadmor Prison Massacre: Reliving Horrors of 32 Years Past." *Syria’s Tadmor Prison Massacre: Reliving Horrors of 32 Years Past*. N.p., n.d. Web. 18 May 2015.

entrenched in a sectarian conflict, made membership in the Muslim Brotherhood punishable by death.

The uprisings climaxed in the beginning of 1982 as another failed assassination attempt on Hafez al-Assad was carried out. However, Sunni military officers carried out this attempt and thus the military that Assad controlled was falling apart. In response to assassination attempt, the regime besieged and shelled the town of Hama for nearly a month, which resulted in ten to forty thousand deaths.<sup>28</sup> This event is known as the Hama Massacre.

As a majority of the business community in Syria are Sunnis, the sectarian conflict and the regime's handling of the situation deepened mistrust among the general business community. The multiple assassination attempts "made Assad turn inwards and become more introspective, but it also appears to have made Assad much more brutal towards his enemies."<sup>29</sup> Feeling the need to firmly re-establish his grip on power yet unable to trust the entire private sector and the general population, the regime strengthened its relationship with the business elite that were benefitting from the regime's policies. Thus, Syria's new economic model of "selective cooperation" began to grow as he enriched select members of the business community—thereby giving them a compelling reason to support his regime.

Throughout the Islamic uprising, Hafez al-Assad relied heavily on his brother, Rif'at al-Assad to quell multiple pockets of insurgency. While already in a top position, the uprisings further

---

<sup>28</sup>*Syria and the Assad Family: The History behind Bashar Al-Assad's Rise to Power and the Civil War*. S.I.: Charles River Editors, 2013. Print.

<sup>29</sup>*Syria and the Assad Family: The History behind Bashar Al-Assad's Rise to Power and the Civil War*. S.I.: Charles River Editors, 2013. Print.



strengthened Rif'at's position within the regime. In November 1983, Hafez suffers a heart attack that led Syrian leadership to contemplate who would be his successor. While Rif'at al-Assad considered himself the heir-apparent due to his role in the uprisings, Hafez created a six-man committee in which "he entrusted the day-to-day running of affairs."<sup>30</sup> Most notably, Rif'at al-Assad was not included in the committee. However, the Alawi generals supported Rif'at as the next leader of Syria. While there are conflicting versions as to exactly what their motivation for supporting Rif'at was, the generals instigated a meeting of the Syrian Regional Command throwing Rif'at "into the centre of affairs."<sup>31</sup>

Not expecting Hafez to recover, the Alawi generals withdrew support of Rif'at. In early 1984, the generals, in a sign of loyalty to Hafez, began to reign in Rif'at's influence and Hafez gave his generals, including Special Forces commander Ali Haydar, orders to monitor Rif'at.<sup>32</sup> The struggle between Hafez and Rif'at reached a turning point when forces loyal to Hafez confronted forces loyal to Rif'at in Damascus. To end this crisis, in March 1984, Hafez established three vice president positions, 'promoting' Rif'at to vice president. In actuality, this vice presidency position was a demotion. After some more military confrontations, in May 1984, Rif'at was exiled from Syria.<sup>33</sup>

After dealing with Islamic uprisings and the attempted coup by Rif'at al-Assad, by the end of 1985, Hafez al-Assad had regained his grip on power. From 1986 till his death in 2000, Assad

---

<sup>30</sup> Dam, Nikolaos Van. *The Struggle for Power in Syria: Politics and Society under Asad and the Ba'th Party*. London: I.B. Tauris, 2011. Print.

<sup>31</sup> Dam, Nikolaos Van. *The Struggle for Power in Syria: Politics and Society under Asad and the Ba'th Party*. London: I.B. Tauris, 2011. Print.

<sup>32</sup> Dam, Nikolaos Van. *The Struggle for Power in Syria: Politics and Society under Asad and the Ba'th Party*. London: I.B. Tauris, 2011. Print.

<sup>33</sup> Dam, Nikolaos Van. *The Struggle for Power in Syria: Politics and Society under Asad and the Ba'th Party*. London: I.B. Tauris, 2011. Print.

went virtually unopposed. As Syria faced an economic crisis in 1986, the regime had to once again change Syria's economic model. Furthermore, believing to have no internal resistance against him, Assad allowed 'liberalizing reforms' to be passed throughout this time period.

## **VII. "Liberalization" And Finding A Successor**

In 1986, after fighting off an attempted coup, the regime's power apparatus had changed: "the dismantling of the Defense Companies and the banishing of Rif'at al-Assad, [meant that the] Defense Companies and the other elite units could no longer be played off one against the other by President al-Asad."<sup>34</sup> Furthermore, since Rif'at was heavily involved in Syria's black market, the regime was able to partially curb corruption within its ranks—although it was only to a certain degree. All in all, Hafez al-Assad had regained his loyal supporters as those who were not loyal would suffer the same fate as Rif'at.

By 1986, the 1980s Oil Glut was in full force as the price of oil dropped 46% in six years. Since Syria's economy was dependent on oil prices and Gulf aid, Syria faced an economic crisis and faced a foreign exchange crisis. As Haddad notes, "the 1986 crisis set in motion the liberalization process that we have been witnessing in Syria for nearly a quarter century."<sup>35</sup> The 1986 crisis highlights the short-term goals of Syrian economic policies. The crisis was dramatically worse due to Syria's lack of efficiency in the public sector and the fact that it funneled a lot of its previous Gulf Aid to the public sector.

---

<sup>34</sup> Dam, Nikolaos Van. *The Struggle for Power in Syria: Politics and Society under Assad and the Ba'th Party*. London: I.B. Tauris, 2011. Print.

<sup>35</sup> Haddad, Bassam. *Business Networks in Syria: The Political Economy of Authoritarian Resilience*. Stanford, CA: Stanford UP, 2012. Print.

It is almost no coincidence that Syria's liberalization began after the Soviet Union announced its dissolution in 1985. During the late 1980s, Syria began stepping up its debt repayment agreements to the USSR. Hundreds of companies were established to make the payments and these companies were created largely through informal networks or the shadow economy. In an attempt to capture the value of the debt agreements, many export-oriented companies started popping up. It was also at this time that children of Syrian officials entered the work force and instead of going into politics like their parents, went into business.<sup>36</sup> While Soviet debt repayments expanded the private sector, it created inefficient firms as officials facilitated demand of products and thus output, rather than efficiency or quality, was emphasized.

At the same time of Syria fulfilling its debt agreements with the dissolving USSR, the regime began acknowledging Western economic principles. The government started adopting policies that demonstrated a move away from a central command economy and in 1986, Legislative Decree No.10 was passed. It allowed the "establishment of mixed public-private ventures in the agricultural sector, primarily for export-promotion purposes."<sup>37</sup> As agriculture has been a staple of the Syrian economy, giving the private sector some control of the sector was considered a significant move—although the decree would later be ineffective in practice.

In 1990, the United States created a coalition against Iraq as a response to its invasion of Kuwait—the First Gulf War. Syria, notoriously critical of the United States, joined the coalition against Iraq. While Syria has many motives for opposing Iraq (due to its Ba'athist parties being

---

<sup>36</sup> Haddad, Bassam. *Business Networks in Syria: The Political Economy of Authoritarian Resilience*. Stanford, CA: Stanford UP, 2012. Print.

<sup>37</sup> Haddad, Bassam. *Business Networks in Syria: The Political Economy of Authoritarian Resilience*. Stanford, CA: Stanford UP, 2012. Print.

rivals), Egyptian and American relations with Syria improved due to Syria's opposition. It is likely that Assad felt comfortable joining the United States' coalition due to the Soviet Union's dissolution. While Syria would always have strong military ties to Moscow, the country was no longer obliged to pick a side between the East and the West.

It is during the improved relations with the United States that Syria was able to pass some liberalizing reforms. Most notably, Investment Law No. 10, passed in 1991 that granted tax exemptions for five to seven years to projects that were approved by the Supreme Council of Investment.<sup>38</sup> Essentially, the law was an attempt to encourage private investment in Syria. Given that the business elite was operating underground, Investment Law No. 10 allowed them to operate in the open.<sup>39</sup> However, because the law required projects to be approved by the regime, only those in favor of the regime could access the opportunities provided by the law or as Haddad puts it, "the opportunity to legitimize their wealth."<sup>40</sup> Furthermore, the regime prevented the private sector from taking advantage of Investment Law 10 by keeping laws that contradicted Law No. 10. Most notably, Law No. 24 prohibited dealing with foreign currency was still in effect when the new investment law passed. According to the Economist Intelligence Unit, while Law No. 24 is not enforced, those who are not politically connected are still afraid to take advantage of Law No. 10.<sup>41</sup> In essence, while Hafez embarked on 'liberalizing' Syria, he kept plenty of safeguards in place by making "all major business transactions both legal and illegal at the same time." It is the combination of Syria's acknowledgement of a need for a

---

<sup>38</sup> "IPR Country Guide: Syria Legal Information." *IPR Country Guide: Syria Legal Information*. N.p., n.d. Web. 18 May 2015.

<sup>39</sup>Haddad, Bassam. *Business Networks in Syria: The Political Economy of Authoritarian Resilience*. Stanford, CA: Stanford UP, 2012. Print.

<sup>40</sup> Haddad, Bassam. *Business Networks in Syria: The Political Economy of Authoritarian Resilience*. Stanford, CA: Stanford UP, 2012. Print.

<sup>41</sup> "The Economist Intelligence Unit." *Country Report Syria*. Economist Intelligence Unit, n.d. Web. 18 May 2015.

private sector and the business elite being the only ones able to take advantage of liberalization that the economic policy from 1986 to 2000 is referred to as “fragmented collusion.”<sup>42</sup>

In all, the foreign exchange crisis in 1986 prompted Syria to liberalize the economy. However, the government promoted liberalization in the public to regain its citizens’ support of the regime’s handling of the economy. In practice, Syria embraced circumscribed liberalization which is: “a pattern of economic liberalization to an already established informal network of public-private ties whereby the beneficiaries of the old and the new arrangements are essentially the same.”<sup>43</sup> Only about a tenth of the projects proposed under Law #10 were realized and many projects went into non-productive sectors such as tourism or car importing rather than manufacturing or infrastructure.<sup>44</sup>

According to the Economic Intelligence Unit, by 1997, the sense of reform inspired by Law #10 subsided.<sup>45</sup> The private sector began demanding for dramatic reforms to the economy such as a private banking sector and stock exchange. At the time, the private sector was suffering a serious credit crunch. It was virtually impossible to access credit in Syria as the public sector and the few private firms run by connected individuals crowded out loans. As a result, Syrians had to rely on Lebanese banks to borrow money. In retrospect, the lack of credit to the private sector was a tactic for the regime to prevent businesses from competing with the business elite. Facing no

---

<sup>42</sup> Haddad, Bassam. *Business Networks in Syria: The Political Economy of Authoritarian Resilience*. Stanford, CA: Stanford UP, 2012. Print.

<sup>43</sup> Haddad, Bassam. *Business Networks in Syria: The Political Economy of Authoritarian Resilience*. Stanford, CA: Stanford UP, 2012. Print.

<sup>44</sup> Haddad, Bassam. *Business Networks in Syria: The Political Economy of Authoritarian Resilience*. Stanford, CA: Stanford UP, 2012. Print.

<sup>45</sup> "The Economist Intelligence Unit." *Country Report Syria*. Economist Intelligence Unit, n.d. Web. 18 May 2015.

serious threats, the regime kept the status quo, as the business elite and their associated Syrian officials were satisfied with the benefits they received from circumscribed liberalization.

As mentioned before, during the 1986 to 2000 period, Hafez al-Assad was comfortable with his power. In 1996, he released political prisoners as a sign of his political strength.<sup>46</sup> Furthermore, Syria's continued opposition to Israel made Assad a star in the Arab world. In all, it is Assad's political dominance during this period that made the regime comfortable with deviating from a public-sector model to grow the private sector—albeit selectively. Although it was a well-known fact that many of the successful private firms engaged in cronyism, the lack of a threat to the regime made Assad willing to bring the shadow economy out into the regular economy. Overall, throughout Hafez al-Assad's presidency, the regime only enacted economic policies whenever it perceived a threat to its power. The regime would quell down these threats by enriching the business elite and sometimes even create a new class of business elite.

Yet, despite Hafez al-Assad's political power in Syria, in the early 1990s, Syrians were wondering who would be Hafez's successor. The most obvious choice was Hafez's eldest son, Basil al-Assad. Seen as someone Hafez "could trust and was reputed to be one of the few prominent figures in the regime who was not tainted with corruption," Basil represented the "national ideal for a new Syrian generation."<sup>47</sup> It was evident that Basil would become the next president of Syria and he likely would have had public support as "many Syrian youths even

---

<sup>46</sup> "The Economist Intelligence Unit." *Country Report Syria*. Economist Intelligence Unit, n.d. Web. 18 May 2015.

<sup>47</sup> Dam, Nikolaos Van. *The Struggle for Power in Syria: Politics and Society under Asad and the Ba'th Party*. London: I.B. Tauris, 2011. Print.

started to imitate his style and outward appearances, such as wearing a short shaven beard.”<sup>48</sup>

However, in 1994, Basil was killed in a car accident while he was driving his car at a high speed.

Since Basil was essentially groomed to become president, Hafez had to find a new successor within his family—or accept Syria being governed by another family.

### **VIII. Bashar al-Assad**

Following Basil’s death, the public did not expect Bashar al-Assad, Hafez’s second eldest son, to be the next president of Syria. When the media describes Bashar’s character in context of the Syrian civil war, they often assert that Bashar originally had no interest in politics.<sup>49</sup>

Furthermore, his studies as an ophthalmologist in London is often used to show how much Bashar has changed since the Arab Spring. In fact, when Bashar became president in 2000, many people saw him as a pro-West reformer. Yet, as David Leech notes, Bashar” spent all of eighteen months in London. He is the son of Hafez al-Assad. He is a child of the Arab-Israeli conflict. He grew up amid the superpower Cold War. He lived the tumult in Lebanon.”<sup>50</sup> Thus, when Basil died in 1994, Bashar came back home to become Syria’s next president.

Bashar went back to Syria in 1994 with virtually no experience in politics or the military.

Naturally, his father appointed him positions within the military and in politics in which he would systemically rise up the ranks. While Hafez and his regime was implementing a

“fragmented collusion” economy where businesses could capture rents if they were politically

---

<sup>48</sup> Dam, Nikolaos Van. *The Struggle for Power in Syria: Politics and Society under Asad and the Ba'th Party*. London: I.B. Tauris, 2011. Print.

<sup>49</sup> Rafizadeh, Majid. "How Bashar Al-Assad Became So Hated." *The Atlantic*. Atlantic Media Company, 17 Apr. 2013. Web. 18 May 2015.

<sup>50</sup> Lesch, David W. *Syria: The Fall of the House of Assad*. N.p.: n.p., n.d. Print.

connected, Bashar was making his political name by cracking down on corruption. In 1996, Bashar led corruption probes on Saeb Nahas (a Syrian hotel mogul) and Osman Aidi (a Syrian financier). Both men were part of the business elite that Hafez al-Assad enriched in order to stay in power. In fact, Saeb Nahas' grandfather was part of the Damascene bourgeois. Bashar's crackdown on corruption and his western 'roots' led many to call him " 'The Hope'—as in the hope for the future."<sup>51</sup>

Furthermore, in 1998, Bashar began to oversee Syria's involvement in Lebanon—a historically important role—and also became involved in economic policies. Since his Basil's death, Hafez appeared to be quickly moving Bashar up so that he could succeed without opposition. Yet, even in 1998 (two years before Hafez's death), many analyst still did not see Bashar as the clear favorite to be Syria's next president.<sup>52</sup> In fact, his crack on corruption, willingness to engage in economic reform, lack of military experience, and "reluctance to engage in patronage politics" turned off the Alawi strongmen and 'old guard' that were running Syria behind the scenes.<sup>53</sup> As stated by the Economic Intelligence Unit, in order for Bashar to be president, he needed to gain "sufficiently powerful friends" such as Firas Tlass (son of Defense Minister Mufasta Tlass) and currently second richest man in Syria.<sup>54</sup> Thus, while Bashar may have genuinely wanted to reform Syria, he was put in a similar vicious cycle his father was in when he assumed power. To reform Syria he needed power; yet, to have power, he needed to have powerful friends—which he could only do so by enriching.

---

<sup>51</sup> Lesch, David W. *Syria: The Fall of the House of Assad*. N.p.: n.p., n.d. Print.

<sup>52</sup> "The Economist Intelligence Unit." *Country Report Syria*. Economist Intelligence Unit, n.d. Web. 18 May 2015.

<sup>53</sup> "The Economist Intelligence Unit." *Country Report Syria*. Economist Intelligence Unit, n.d. Web. 18 May 2015.

<sup>54</sup> "The Economist Intelligence Unit." *Country Report Syria*. Economist Intelligence Unit, n.d. Web. 18 May 2015.



Nevertheless, less than a year before his death, Hafez began to clear as many 'old guard' members as possible allowing Bashar to replace them with people more aligned with Bashar's reformist policies. The fact that Hafez is willing to purge his ranks of the old guard in order for his son to gain in power highlights the fact that his family's position in power is his number one priority. By replacing members of the old guard and replacing it with people inclined to support Bashar (reform oriented), Hafez is subtly altering Syrian economic and political policy just to ensure his family stays in power. Once again, this demonstrates the shortsightedness and reactive nature of the regime's economic planning.

According to reports from the Economic Intelligence Unit, in 1999, Hafez made Bashar's succession his most pressing issue. While he demoted some members of the old guard, he kept most powerful members of the regime intact. After all, the "Alawite-dominated military-security apparatus, as well as leading (most Sunni) businessmen tied into the regime, saw in Bashar al-Assad the best chance (or perhaps the least worst) of maintaining their political, economic and social positions and status."<sup>55</sup> Furthermore, he threw Bashar into the diplomatic limelight as Bashar made high profile trips to many Gulf States. On June 10<sup>th</sup>, 2000, Hafez al-Assad passed away and on June 11<sup>th</sup>, 2000, Bashar al-Assad became president.

On July 17<sup>th</sup>, 2000, Bashar al-Assad gave his inaugural speech. According to David Leech, it was an "enlightened speech" and "he made economic reform a clear priority; indeed, the frankness of his criticism of the previous system was unprecedented."<sup>56</sup> Yet, although Bashar's rise to power

---

<sup>55</sup> Lesch, David W. *Syria: The Fall of the House of Assad*. N.p.: n.p., n.d. Print.

<sup>56</sup> Lesch, David W. *Syria: The Fall of the House of Assad*. N.p.: n.p., n.d. Print.

was smooth, his status was still not secured. In becoming president, he relied on a network of close allies, most notably:

“General Mustafa Tlass: defense minister of 28 years. General Khalil: new head of military intelligence. Brigadier-General Asif Shawqat: chief of staff. General Bahjat Suleiman: head of the internal branch of the State Security Service. And Farouq al-Shara: the urbane foreign minister.”<sup>57</sup>

It should be noted, that many of his close allies were part of the old guard. Even though Bashar would bring in technocrats to implement reform in Syria, the interests of the old guard and the Syrian bureaucracy protecting such interests would mean Syria would experience only some meaningful reforms.

### **IX. Bashar’s Early Presidency: Solidifying Power and ‘Implementing’ Reform**

When Bashar became president, he inherited an array of problems: a frail and archaic economy, an old guard inhibiting his reformist agenda, and a country with heightened expectations for its new president. When he first assumed office, he attempted to initiate a wide array of reforms.

The government passed Decree 7 allowing foreign investors to repatriate their invested funds in hard currency out of the country if they choose to abandon a project before it is completed.<sup>58</sup>

Furthermore, Bashar passed Decree 6 giving Syrians the chance to exchange for foreign currency at the official rate (Syria traditionally has several exchange rates). Perhaps the most important liberalization Bashar embarked on was the privatization of the banking sector. In 2000, the

---

<sup>57</sup> "The Economist Intelligence Unit." *Country Report Syria*. Economist Intelligence Unit, n.d. Web. 18 May 2015.

<sup>58</sup> "The Economist Intelligence Unit." *Country Report Syria*. Economist Intelligence Unit, n.d. Web. 18 May 2015.

government announced that it would allow foreign banks to open branches in Syria's five economic free trade zones. Furthermore, the government was beginning to draft a law that would establish a stock market. On the political side, Bashar released 600 political prisoners and began making plans for press freedoms and the expansion of the Internet.<sup>59</sup>

Yet, while it appeared that Bashar was liberalizing Syria, in actuality, it was very much the same status quo as before: only politically connected Syrians can tap into the benefits that the reforms have to offer. For example, although Decree 6 was passed, Law No.24 (prohibiting Syrians from dealing with foreign currency) was still in place. Haddad calls this phenomenon of contradictory laws the "Role of Law," that is: "the law becomes an arbitrary tool controlled by the regime in its definition and enforcement of barriers to entry into the network of beneficiaries."<sup>60</sup>

It is likely that Bashar had no influence in changing the status quo in Syria as the old guard resisted his reforms by keeping contradictory laws in place as a safeguard. At that time, Bashar still had not consolidated power and members of the old guard were so entrenched and enriched with the economic system they created that any attempt of reform would be quickly halted by Syrian bureaucracy and corruption. Thus, while businesses were encouraged by Bashar's actions towards liberalization, they adopted a wait-and-see approach as they elected to wait on a settled political climate before making major investment decisions.<sup>61</sup>

---

<sup>59</sup> "Syria Profile - Timeline - BBC News." *BBC News*. N.p., n.d. Web. 18 May 2015.

<sup>60</sup> Haddad, Bassam. *Business Networks in Syria: The Political Economy of Authoritarian Resilience*. Stanford, CA: Stanford UP, 2012. Print.

<sup>61</sup> "The Economist Intelligence Unit." *Country Report Syria*. Economist Intelligence Unit, n.d. Web. 18 May 2015.

The year 2001 was a defining year for Bashar's presidency. Early in the year, the government announced the establishment of private banks and plans for a stock market in Damascus. Yet, while the laws were passed, Syria would not see a private financial sector until a few years later. In the second quarter of 2001, Israel attacked Syrian positions in Lebanon giving Bashar his first test in Syrian foreign policy. Bashar responded to the attack with harsh words but in actuality took no action against Israel. Instead, he attempted to use this attack as a way to solidify his position.

While Bashar had harsh words for the Israeli attack, Syria ultimately took no action against Israel. Instead, the old guard uses this incident to halt further reforms as Syria curbs its free speech experiment and Riad Sief, a well-known government critic and a member of parliament, is stripped of immunity and charged with violating the constitution.<sup>62</sup> Since the attack, Syria halted domestic reforms; this is in line with Hafez's tendency to stop domestic reforms when the country faces a foreign policy crisis. However, it is not the event that forces the regime to halt reforms. Rather, these crises tend to serve as an excuse for the regime not to change the status quo. Whether Bashar or the old guard halted domestic reforms in light of the Israeli attacks, the attacks slowed down the already slow reform process Bashar was trying to undertake.

In September 2001, Syria's regional concerns greatly heightened. The September attacks on the United States forced Syria to take a stance on whether it wants to remain as an Arab nation well known for opposing Israel or a new country willing to support the United States' war on terror. Interestingly enough, Syria began to focus on improving its economy through the status quo instead of new reforms. The government started focusing on turning around loss-making state

---

<sup>62</sup> "The Economist Intelligence Unit." *Country Report Syria*. Economist Intelligence Unit, n.d. Web. 18 May 2015.

owned enterprises and credit continued to be issued mostly to the public sector. The regime maintained the status quo and business networks that propped them into power immediately after 9/11 to prevent any group from using the region's instability to overthrow the regime.

By 2002, there appeared to be an implicit agreement between the old guard and Bashar al-Assad and his reform-oriented allies. Bashar arrested political dissidents early in 2002 as he agreed to curb political freedoms. In exchange, Bashar was allowed to implement economic freedoms although the scope of it would be limited, as serious reform would affect the old guard's entrenched interest. Bashar would attempt to push pieces reforms through such as unifying the exchange rate and establishing the Credit and Monetary Council (CMC) that would stabilize the credit and monetary institutions in Syria. Nevertheless, due to the looming US-led war and Syria's new label as an "axis of evil," Bashar needed to rely on the old guard to navigate through regional tensions. As a result, while Bashar may have seemed genuine in liberalizing Syria, members of the old guard halted reforms citing it as a threat to Syria's stability. For example, by 2002, there were forty private bank applications but no private banks were open.<sup>63</sup>

However, in 2003, Bashar appeared to find an opening to push some reform in Syria. As the US invasion of Iraq collapsed the Iraqi regime, the United States began threatening the regime to implement political and economic reform. The Economist Intelligence Unit speculated that due to US pressure on Syria, Bashar would use this opportunity "to remove the holding reins of power around him, getting rid of the hardline old guard who continue to hold back Syria's development and keep it out of step with regional and global developments."<sup>64</sup> On the economic

---

<sup>63</sup> "The Economist Intelligence Unit." *Country Report Syria*. Economist Intelligence Unit, n.d. Web. 18 May 2015.

<sup>64</sup> "The Economist Intelligence Unit." *Country Report Syria*. Economist Intelligence Unit, n.d. Web. 18 May 2015.

side, reforms appeared to be pushed through as four private banks were granted licenses to operate. Furthermore, the government issued Decree No.33 abolishing Law No.24 of 1986 and Law No.6 of 2000 thereby getting rid of prison sentences for breaches of the two laws.<sup>65</sup> Yet on the political side, Syria did not budge to the United States' demands as the regime issued a rule against criticizing the Assad family and continued to crack down on dissidents. The events of 9/11 and the Iraq war revealed Bashar's approach to remake Syria. An Israel attack northwest of Damascus in late 2003 made matters even worse. While the president tolerated and pushed for changes to Syria's economic system, he appeared unwilling to push for political pluralism. Since Syria had no real strategy to address the changing realities of the region, it is possible that Bashar feared that the West would use his political enemies and the region's conflicts to overthrow the regime. Perhaps at the advice of the old guard, Bashar continued to clamp down on political dissent in order to stay in power.

Regional developments continued to dominate the regime's attention in 2004. At the start of the year, Libya gave up its chemical weapons further isolating Syria. The regime attempted to make some overtures by making vague statements considering political change and peace talks with Israel. However, little changes were made as political arrests continued. Furthermore, the regime refused to give up its influence of Hizbullah and Lebanon as the Lebanese black market still enriched many regime officials and members of the business elite.

To try and cool down relations with the United States, Assad attempted to highlight Syria's common interest in stopping Islamist militants—an approach he would later use in the civil war. On April 28, 2004, Islamist militants attacked Damascus and Moshen al-Qaqa, a radical preacher

---

<sup>65</sup> "The Economist Intelligence Unit." *Country Report Syria*. Economist Intelligence Unit, n.d. Web. 18 May 2015.

in Aleppo, started developing a growing following. Realizing that Syrian Islamists were linking up with Iraqi Islamists, Assad tried to gain goodwill with the West by arresting Islamists. Yet, Syria's crackdown on extremism was to no avail. The EU continued to pressure Syria over its weapons program and France joined the United States in a UN Security Resolution demanding Syria withdraw from Lebanon.

On the economic front, it appeared the regime continued to push through its painfully slow reforms. While the first two private banks emerged in early 2004, the government owned 51% of the bank and they operated under very restrictive rules. However, the banking reforms started to come into fruition by 2004 because lending to loss-making public sector firms forced the government to inject capital into commercial banks. Additionally, the regime initiated talks of an EU Association Accord which would give Syria more foreign aid. However, since the EU did not want rents allocated to the hands of the political and business elite, the accord would only be signed if Syria made major political concessions. The EU Association Accord underlines a common flaw with Syria's political economy: economic liberalization must come with political pluralism. Although Syria has commonly cited the Chinese model of reforms to assert that political changes must be implemented slowly, Syria's reliance on rents, lack of an efficient manufacturing system, and other structural differences between the two countries makes political reform necessary for Syria. Therefore, while Assad may have been eager to push through economic laws piece by piece, the lack of political inclusiveness halted any meaningful changes.

The year 2005 marked a very crucial year for the Syrian government. By then, the economy was still struggling and US sanctions contributed to cancellations of large gas development deals.

Although oil prices were at a record high, Syrian output was declining. Yet, the struggling economy was the least of the regime's concerns. On February 14<sup>th</sup>, 2005, the former Prime Minister of Lebanon, Rafic Hariri was assassinated prompting the international community to blame Syria on the killing. As a result, Syria withdrew all its troops from Lebanon and the political dynamic within Syria started to shift.

After the killing, Bashar appointed his brother-in-law, Assef Shawkat as head of military intel. His brother and head of the Republican Guard, Maher al-Assad, also began to gain more influence. Suddenly, Bashar leveraged the Hariri killings and international pressure on Syria to displace members of the old guard with his own people. According to the Mehlis Report, both Shawkat and Maher al-Assad were considered suspects. Nevertheless, pressure on Syria as a result of the assassination allowed Bashar to finally consolidate power replacing many members of the old guard with his own people.

While Syria appeared busy on the political front, its economy was still struggling despite high oil prices. The lack of economic growth despite rising oil prices illustrates Syria's asymmetrical distribution of rents. The inefficiency of Syria's economy was stated by Nibras al-Fadhel—a Syrian economic reformer who was sacked by the regime probably because his ideas for good governance and democratic values were too much for his superiors to accept. Nibras al-Fadhel stated that he was unable to reform Syria because of “the absence of systematic principles, the lack of authority, and the weakness of the capability available.”<sup>66</sup> His statement suggests that while Assad may have been genuine, various interest groups have been continuously undermining Assad.

---

<sup>66</sup> "The Economist Intelligence Unit." *Country Report Syria*. Economist Intelligence Unit, n.d. Web. 18 May 2015.



However, after the Hariri assassination in the latter half of 2005, Assad was able to move his supporters to high-level government positions. By June 2005, the Ba'ath Party announced a new economic ideology of a social market economy (more free market oriented) and Assad appointed Deputy Prime Minister Abdullah al-Dardari to lead reforms.

Interestingly enough, after the Hariri assassination, it appeared Assad finally consolidated his power and was able to remove members of the old guard from Syria's ruling hierarchy. In his book, Haddad defines the period after 2005 as a new era for Syria because "2005 represents the first official and public expression in four decades of a desire to move away from a state-centered economy and *toward* a mixed economy where market forces play a more significant role."<sup>67</sup> However, changing the identity of the economy is a long process. As Abdullah al-Dardari puts it: "they [rent-seeking networks] are still around, and they are powerful, but they are undergoing a change."<sup>68</sup> As the Arab Spring occurred in Syria because citizens demanded political and economic pluralism, it appears evident that the reforms were not effective or fast enough to satisfy the majority of Syrians.

## **X. A New Economic Era Or More Of The Same**

The Hariri assassination was Bashar al-Assad's biggest challenge to power and he used the initial outcry over the killing to consolidate power. By losing Lebanon, he was able to push his political enemies out of the government. To David Lesch, he "saw Bashar al-Assad grow more

---

<sup>67</sup> Haddad, Bassam. *Business Networks in Syria: The Political Economy of Authoritarian Resilience*. Stanford, CA: Stanford UP, 2012. Print.

<sup>68</sup> Haddad, Bassam. *Business Networks in Syria: The Political Economy of Authoritarian Resilience*. Stanford, CA: Stanford UP, 2012. Print.

comfortable as president—perhaps too comfortable” and “began to feel more secure in his position and more sure of his future.”<sup>69</sup> From 2005 until now, it appeared that Bashar was able to push through his agenda for the most part.

After Bashar’s consolidation of power, the government appeared to push for a “more legal-rational” economy.<sup>70</sup> That is, businessmen can enter the business environment safely without a connection to the regime. In late 2006 and early 2007, the notorious Investment Law No. 10 was replaced. Decree 8 of 2007 allowed investors to own or lease land required for their projects and they could repatriate profits, dividends, and invested capital. Additionally, Decree 9 created the Syrian Investment Authority that allowed investors to assume projects are qualified for a license unless the government revokes it within 15 days. Essentially, Decree 9 shifted Syria’s investment manner from an approval format to a ‘quasi-negative list’ format. Thus, in theory, investors do not have to undergo a lengthy process to get investment projects approved. In 2008, the government passed Law 32, widening the scope for foreign investors to own land in designated cities on which their projects are set up.<sup>71</sup>

Furthermore, private banks began to impact the Syrian economy more substantially. By 2006, private banks owned roughly 13% of total banking assets.<sup>72</sup> That same year, the government granted licenses to four private insurance firms. In 2008, banks received permission to lend to licensed investment projects in foreign currency—a significant move given Hafez’s legacy of prohibiting the holding foreign currency. A year later, Syria’s first stock exchange, the Damascus

---

<sup>69</sup> Lesch, David W. *Syria: The Fall of the House of Assad*. N.p.: n.p., n.d. Print.

<sup>70</sup> Haddad, Bassam. *Business Networks in Syria: The Political Economy of Authoritarian Resilience*. Stanford, CA: Stanford UP, 2012. Print.

<sup>71</sup> "The Economist Intelligence Unit." *Country Report Syria*. Economist Intelligence Unit, n.d. Web. 18 May 2015.

<sup>72</sup> "The Economist Intelligence Unit." *Country Report Syria*. Economist Intelligence Unit, n.d. Web. 18 May 2015.

Security Exchange was launched on March 10<sup>th</sup>, 2009. It appeared that during Bashar's decade of rule, Syria's financial system underwent a dramatic transformation. By 2010, EFG-Hermes, an Egypt-based investment bank, opened an office in Syria with intentions to launch a private equity firm.

With relaxed investment laws, a developing financial sector, and Bashar's consolidation of power, it appeared Syria was headed towards economic pluralism. Yet, the entrenched business networks that defined and crippled Syria's economy still existed—just to a different degree. The country's top businessmen were still regime-connected citizens. The most notable is Bashar's cousin, Rami Makhlouf. Under CHAM Holdings, Makhlouf owned Syriatel (Syria's largest mobile-phone company), Gulfsands Petroleum (one of the few privately owned companies in the oil sector), multiple power plants, luxury hotels, and other major projects. Despite Assad's public anti-corruption campaign and his rhetoric of a free market, Makhlouf was always able to have “preferential access to Syrian economic sectors [which] has led to complaints about him from members of the Syrian business community.”<sup>73</sup>

Syria's second richest man and son of former Syrian defense minister, Firas Tlas, also took advantage of his relationship to the regime. When Syria's finance industry was developing, Tlas was able to strike a joint venture with EFG-Hermes to create Syria's first private equity firm. While the law allowed anyone to established a private equity firm, it is significant that EFG-Hermes found it important to partner with Tlas.

---

<sup>73</sup> "Rami Makhluf Designated for Benefiting from Syrian Corruption." *Treasury.gov*. U.S. Department of Treasury, n.d. Web.

It is no coincidence that both Tlas and Makhoul—Syria's two richest men—were considered part of Bashar's inner circle.<sup>74</sup> In fact, many of the largest companies in Syria were connected to Bashar al-Assad's regime and probably were connected to Hafez's regime as well (Figure 5). It is also of no coincidence that many connected businessmen held positions in the Damascus Chambers of Commerce as evident through Tarif Akhras (owner of commodity trading firm Akhras group and member of the Chambers of Commerce). Ultimately, because Bashar relied on many businessmen to consolidate his power in Syria, his reformist agenda is inevitably limited in scope since he cannot isolate himself amongst the business elite.

In the end, Syria's economy was never going to be inclusive as long the regime was unwilling to share power. Since 2004, the regime attempted to sign an Association Accord with the European Union that would give Syria more aid. However, the EU demanded that Syria implement structural reforms to its political and economic systems.<sup>75</sup> For example, the first round of negotiations required Syria to break up its public-sector monopolies.<sup>76</sup> Talks of an Association Accord in 2004 and 2009 broke down between Syria and the EU because Syria was unwilling to enact certain changes that the agreement would require. As the agreement would ultimately give Syria a new source of rents, it is likely that the EU did not want aids to be divvied out to the hands of a few—as is the usual case whenever Syria receives rents. Therefore, the agreement demanded specific changes to ensure the aid would be put to effective use. Realizing that the regime's supporters would not capture most of the rent, it is probable that Syria walked away from the agreement because it did not ensure the regime's stability. Despite Bashar's rhetoric of

---

<sup>74</sup> "The Economist Intelligence Unit." *Country Report Syria*. Economist Intelligence Unit, n.d. Web. 18 May 2015.

<sup>75</sup> "The Economist Intelligence Unit." *Country Report Syria*. Economist Intelligence Unit, n.d. Web. 18 May 2015.

<sup>76</sup> "The Economist Intelligence Unit." *Country Report Syria*. Economist Intelligence Unit, n.d. Web. 18 May 2015.

reforming Syria and its “social market economy,” the failed EU Association Accord reveals the regime’s true intentions of preserving the status quo in Syria.

## **XI. Syria Erupts**

In the spring of 2011—after the fall of Tunisia and Egypt, protests began to emerge in Syria “after the arrests of at least 15 children for painting anti-government graffiti on the walls of a school.”<sup>77</sup> Despite the regime lifting Syria’s 1963 state of emergency law and Bashar’s concession of political reforms, protests in Syria continued. The Arab Spring in Syria ultimately spiraled out of control and devolved into a civil war. As of May 2015, Syria is locked in a stalemate as competing factions fight for control of the country (the main factions being the Assad regime, the Islamic State, and the Free Syrian Army).

Since the competing groups for power are differentiated mainly by their ethnic and religious beliefs, Syria appears to be undergoing a sectarian—and nearly existential—conflict. Yet, sectarianism did not cause the civil war. Just like the Islamic Uprisings in the early 1980s, sectarian tensions only started to boil to the surface after a struggling economy. While the Arab Spring may have triggered the civil war, Syrians’ discontent for the regime is grounded on the regime’s extractive political and economic institutions.

## **XII. Why Syria Failed**

In the preface of *Why Nations Fail*, Acemoglu and Robinson open up with the Arab Spring challenging the power of regimes in the Middle East—including Syria. They assert: “the roots of

---

<sup>77</sup> Sterling, Joe. "Daraa: The Spark That Lit the Syrian Flame - CNN.com." *CNN*. Cable News Network, n.d. Web. 18 May 2015.

discontent in these countries lie in their poverty.”<sup>78</sup> Moreover, they argue: “poor countries are poor because those who have power make choices that create poverty. They get it wrong not by mistake or ignorance but on purpose.” Specifically, many governments create extractive institutions that concentrate power and wealth in the hands of a few thereby harming long-term economic growth. Analyzing the Assad regime’s economic and political policies in depth, we confirm Acemoglu and Robinson’s theory that Syria failed because of its political and economic institutions—rather than long-brooding sectarian tensions.

The Assad regime did not make a blatant decision to keep Syria poor. Rather, since the regime’s main priority was to stay in power, it made short-term economic decisions that merely delayed and compounded the country’s issues. For example, Hafez, finding the need to rely on a small group of businessmen to consolidate power, turned a blind eye towards rampant corruption in Syria. The reliance on these business elites and acceptance of corruption led to a stagnant economy in 1980 and the Islamic Uprisings. In essence, the regime’s inclination to accept a short-term solution to any threats to its power harmed the country’s chances of sustainable, long-term growth.

It is further evident that Syria’s political and economic institutions were indeed extractive. On the political side, the Assad family and a small circle of Alawite elites controlled the country through the country’s security apparatus and economic institutions. To Acemoglu and Robinson, extractive political institutions “have incentives to maintain and develop extractive institutions

---

<sup>78</sup> Acemoglu, Daron, and James A. Robinson. *Why Nations Fail: The Origins of Power, Prosperity, and Poverty*. New York: Crown, 2012. Print.

for their benefit and use the resources they obtain to cement their hold on political power.”<sup>79</sup>

Indeed, the regime’s reliance on a small segment of the business community and the public sector formed the foundation of an extractive economic institution. While the wealth the regime extracted was certainly a resource used to cement power, perhaps the greatest resource the regime gained was its business allies. In the end, Syria’s political and economic institutions have “a strong feedback loop,” making it difficult for any government to reform Syria.<sup>80</sup>

In conclusion, Syria failed because the Assad regime prioritized their hold on power over any other issue. Any time there was a substantial threat to the regime’s stability, the government made short-term economic and political decisions to address the immediate problem. Often times, these decisions involved concentrating power and/or wealth into the hands of a few in order to prop up support for the Assad family. Yet, by addressing economic and political problems with short-term solutions, the regime never addressed the root of its issues—thereby compounding discontent amongst Syrians. By 2011, Syrians—convinced the regime would suffer the same fate as the regimes in Egypt, Tunisia, and Libya—decided to express their long-brooding discontent against the Syrian government.

Today, Syria is in the midst of a civil war. Many pundits say the roots of the war are from long-standing sectarian tensions. However, the true “roots of discontent in [Syria] lies in its poverty,”

---

<sup>79</sup> Acemoglu, Daron, and James A. Robinson. *Why Nations Fail: The Origins of Power, Prosperity, and Poverty*. New York: Crown, 2012. Print.

<sup>80</sup> Acemoglu, Daron, and James A. Robinson. *Why Nations Fail: The Origins of Power, Prosperity, and Poverty*. New York: Crown, 2012. Print.

as a regime's desire to maintain grip on power resulted in an extractive yet unsustainable economic and political model.<sup>81</sup>

---

<sup>81</sup> Acemoglu, Daron, and James A. Robinson. *Why Nations Fail: The Origins of Power, Prosperity, and Poverty*. New York: Crown, 2012. Print



## Thesis Figures

Figure 1:

Country	Resilient Regime	Ruler	Time Period Start	Time Period End	In Power Today	Arab Spring Affected
Iran	Yes	Ali Khameni	1979	2015	Yes	No
Saudi Arabia	Yes	House of Saud	1926	2015	Yes	No
Egypt	Yes	Hosni Mubarak	1981	2011	No	Yes
Turkey	Partly	Tayyip Erdogan	2003	2015	Yes	No
Iraq	Yes	Saddam Hussein	1979	2003	No	No
Yemen	Yes	Ali Abdullah Saleh	1990	2012	No	Yes
Syria	Yes	Assad Family	1971	2015	Yes	Yes
United Arab Emirates	Yes	Al Nahyan Family	1990	2015	Yes	No
Israel	No					No
Jordan	Yes	Abdullah al-Husseini	1999	2015	Yes	No
Palestine	N/A					Yes
Lebanon	Under Syrian Control					No
Oman	Yes	Qaboos al Said (al Said family)	1970	2015	Yes	Yes
Kuwait	Partly					Yes
Qatar	No	Al Thani Family	1850	2015	Yes	No
Bahrain	Yes	Al Khalifa Family	1783	2015	Yes	Yes
Cyprus						No
Algeria	Yes	Abdelaziz Bouteflika	1999	2015	Yes	Yes
Libya	Yes	Muammar Gaddafi	1969	2011	No	Yes
Morocco	Partly	King Mohammed VI	1999	2015	Yes	Yes
Sudan	Yes	Omar al-Bashir	1989	2015	Yes	Yes
Tunisia	Yes	Zine El Abidine Ben Ali	1989	2011	No	Yes

Figure 2:

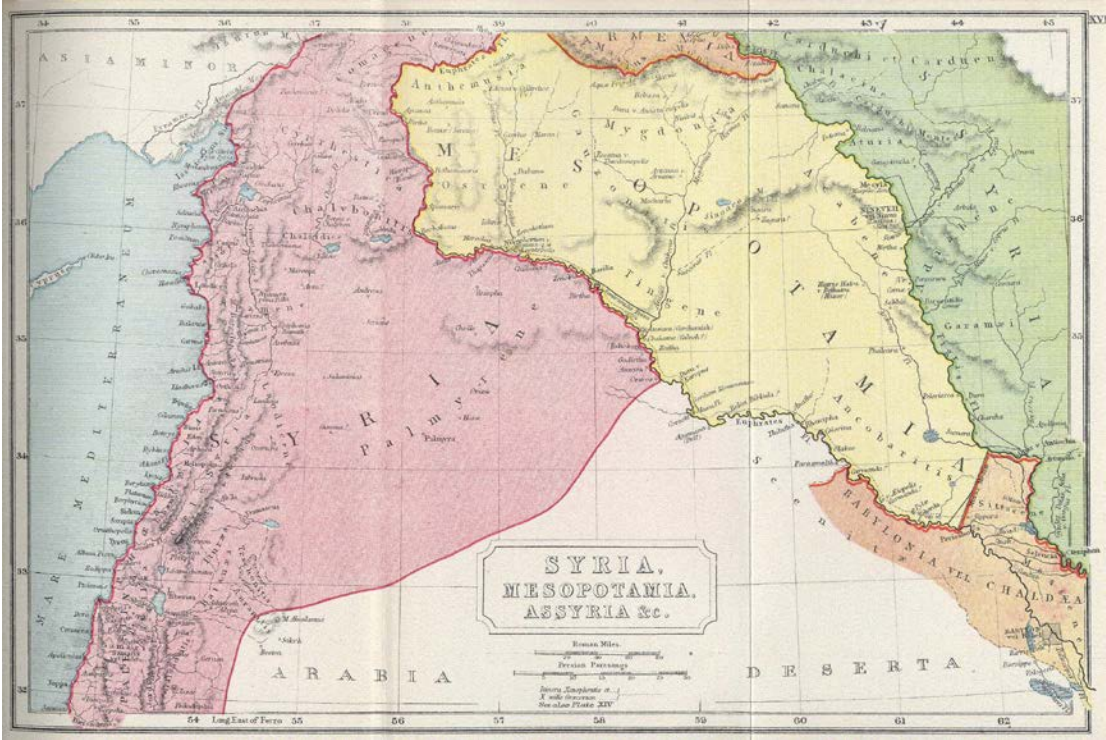


Figure 3:

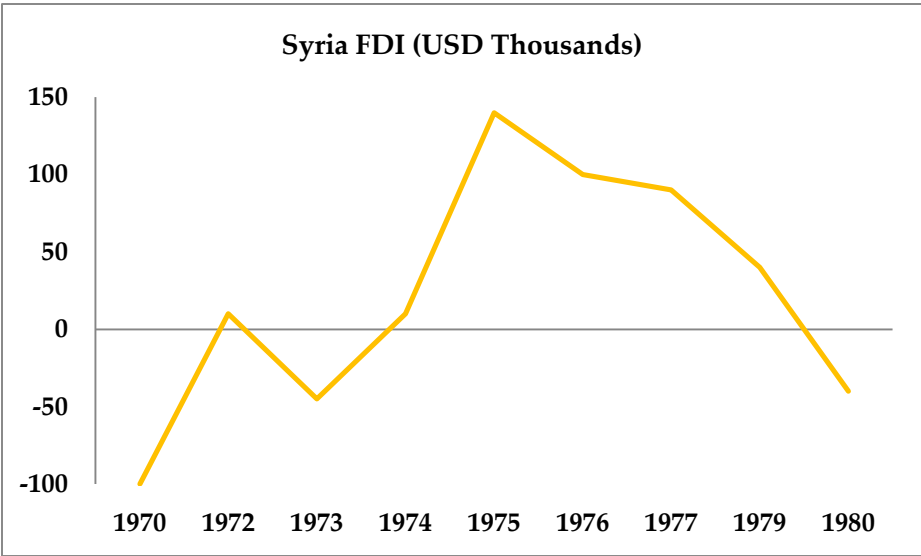
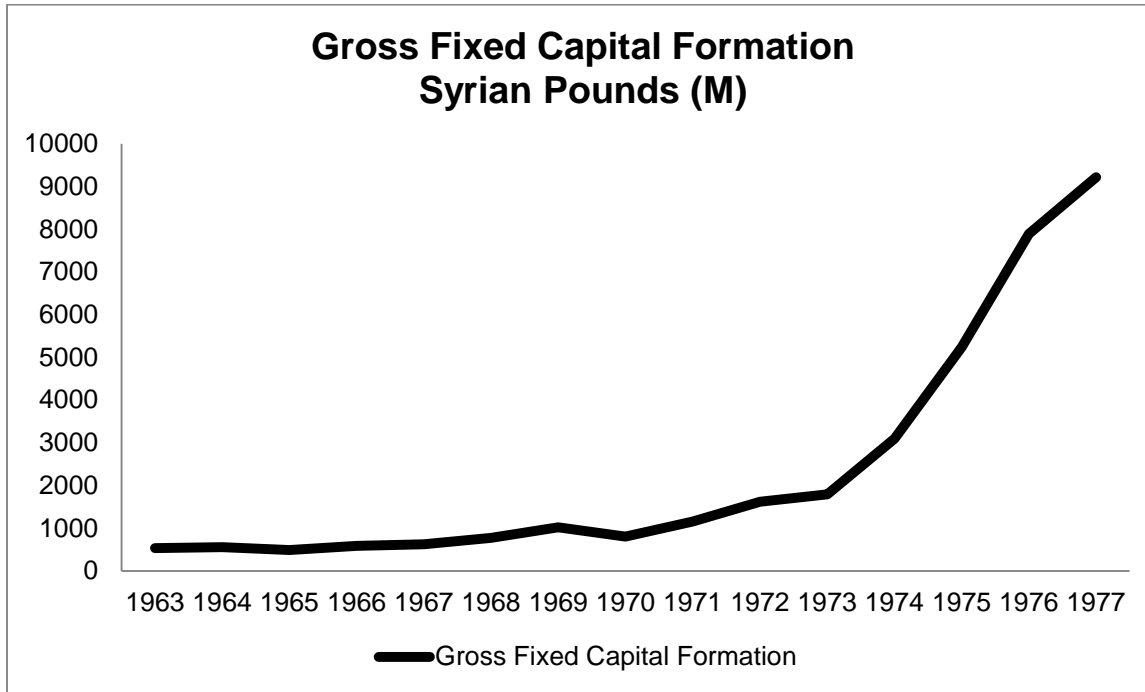


Figure 4:



Source: IMF

Figure 5

Assad Family		
Name	Position	Affiliated Organization
Hafez al-Assad	President	
Bashar al-Assad	President	
Anisa Makhlof	Wife of Hafez al-Assad	
Maher al-Assad	Son of Hafez al-Assad	
Jamil al-Assad	Brother of Hafez al-Assad	al-Assad Militia
Adnam Rifa al-Assad	Brother of Hafez al-Assad	Fighting Brigade
Rifat al-Assad	Brother of Hafez al-Assad	Red Nights
Asma al-Assad	Wife of Bashar al-Assad	
Manal al-Assad	Wife of Maher al-Assad	
Bushra al-Assad	Sister of Bashar al-Assad	
Hayel al-Assad	Family member	Assistant to Maher al-Assad
Nizar al-Assad	Previous head of Nizar Oilfield Supplies	Nizar Oilfield Supplies

Businessmen		
Name	Relation/Position	Affiliated Company
Rami Makhlof	Cousin of Bashar al-Assad and Owner of CHAM Holdings	CHAM Holdings
Filas Tlass	Son of Mustafa Tlass / Businessman	
Saeb Nahas	Friend of Assad Family / Businessman	
Rida Nahas	Bourgeois of Damascus	Grandfather of Saeb Nahas
Osman Aidi	Financier / Associate of Assad Family	Meridien Hotel
Emad Hamsho	Associate of Bashar al-Assad / Senior Manager of Hamsho	Hamsho International
Samir Hamsho	Associate of Bashar al-Assad / Homs Chamber of Commerce	Hamsho International
Mohammed Hamsho	Associate of Bashar al-Assad / Owner of Hamsho	Hamsho International
Tarif Akhras	Syrian Chamber of Commerce/Close Relationship With Assad Family	Akhras Group
Samir Hassan	Vice Chairman for Russia of the Bilateral Business Council	
George Haswani	Buys oil for Regime	HESCO Engineering
Ahmad Barqawi	Pangates Int'l Corp General Manager	Pangates Int'l Corp
Wael Abdulkarim	Pangates Int'l Corp Managing Director	Pangates Int'l Corp
Bassam Sabbash	Legal and financial adviser to Rami Makhlof	
Abdelhamid Abdullah	Chairman of Overasea Petroleum Trading Company	
Hashim Al-Aqqad	Chairman of Akkad Group (Multiple sectors) / Benefitted from Regime	Akkad Group
Raif Al-Quwatly	Business associate of Maher al-Assad	
Issam Anbouba	President of Anbouba for Agricultural Industries Co	Anbouba for Agricultural Industries Co
Fares Chehhabi	Vice chairman of CHAM Holdings, President of Aleppo Chamber of Industry	CHAM Holdings
Ayman Jabir	Close to Maher al-Assad and Rami Makhlof	El Jazireh
Ihab Makhlof	President of Syriatel (Related to Assad Family)	CHAM Holdings
Mohammed Makhlof	Business associate and father of Rami Makhlof	
Razan Othman	Wife of Rami Makhlof / Financer of Regime	
Khalid Qaddur	Close to Maher al-Assad / Prominent Businessman	

Military / Government		
Name	Position	General Notes
Mustafa Tlass	Defense Minister	"Old Guard"
Manaf Tlass	Son of Mustafa Tlass	General / Defected
Assef Shawat	Brother in law of Bashar	Head of Military Intel
Bahjat Suleiman	General	Removed by Bashar al-Assad to boost Shawat
Asif Shawqat	Brigadier-Generarl	
Farous al-Shara	Interior Minister	
General Khalil	General	
General Shihabi	General	

Businesses		
Company Name	Description	Key Figures
Abdulkarim Group	Pangates, associated with Sytrol	Ahmad Barqai; Wael Abdulkarim
Addounia TV		
Hamsho Group	Al Buroj Trading	Mohammed Hamsho
CHAM Holdings	Al Mashreq Investment Fund; Syriatel; Bena Properties	
El Jazireh		Ayman Jaber
Pangates Int'l Corp	Controlled by Abdulkarim Group; Supply of oil to Syrian Regime	Ahmad Barqai; Wael Abdulkarim
BLOM Bank	Controlled by Prominent Syrian ; unknown	
Meridien Hotel		Osman Aidi
HESCO Engineering	Buys oil from IS to Syrian Regime	George Haswani
Akhras Group	Commodities, trading, processing, and logistics	Tarif Akhras
Akkad Group	Multiple Sectors	Hashim Al-Aqqad

## Works Cited

- Acemoglu, Daron, and James A. Robinson. *Why Nations Fail: The Origins of Power, Prosperity, and Poverty*. New York: Crown, 2012. Print.
- Collelo, Thomas. "Syria - Ottoman Empire." *Syria: A Country Study*. Library of Congress, n.d. Web. 18 May 2015.
- Dam, Nikolaos Van. *The Struggle for Power in Syria: Politics and Society under Asad and the Ba'th Party*. London: I.B. Tauris, 2011. Print.
- "The Economist Intelligence Unit." *Country Report Syria*. Economist Intelligence Unit, n.d. Web. 18 May 2015.
- "Emergency Law – Legislative Decree #51." *PANDA People Against The NDAA*. N.p., n.d. Web. 18 May 2015.
- "French Mandate For Syria and the Lebanon." JSTOR, n.d. Web.
- Haddad, Bassam. *Business Networks in Syria: The Political Economy of Authoritarian Resilience*. Stanford, CA: Stanford UP, 2012. Print.
- Hilleary, Cecily. "Syria's Tadmor Prison Massacre: Reliving Horrors of 32 Years Past." *Syria's Tadmor Prison Massacre: Reliving Horrors of 32 Years Past*. N.p., n.d. Web. 18 May 2015.
- "IPR Country Guide: Syria Legal Information." *IPR Country Guide: Syria Legal Information*. N.p., n.d. Web. 18 May 2015.
- Khoury, Philip. "Review." *www.jstor.org*. JSTOR, Mar. 2001. Web.
- Lesch, David W. *Syria: The Fall of the House of Assad*. N.p.: n.p., n.d. Print.
- "Man of the Moment." *The Economist*. The Economist Newspaper, 08 Feb. 2014. Web. 18 May 2015.
- "The Massacre of the Military Artillery School at Aleppo – Special Report." *Syrian Human Rights Committee*. N.p., n.d. Web.
- "No Taxation, No Representation." *The Economist*. The Economist Newspaper, 23 Mar. 2002. Web. 18 May 2015.
- "Ottoman Empire." *BBC News*. BBC, n.d. Web. 18 May 2015.
- Perthes, Volker. *The Political Economy of Syria under Asad*. London: I.B. Tauris, 1997. Print.

Polk, William R. "Understanding Syria: From Pre-Civil War to Post-Assad." *The Atlantic*. Atlantic Media Company, 10 Dec. 2013. Web. 18 May 2015.

Sterling, Joe. "Daraa: The Spark That Lit the Syrian Flame - CNN.com." *CNN*. Cable News Network, n.d. Web. 18 May 2015.

*Syria and the Assad Family: The History behind Bashar Al-Assad's Rise to Power and the Civil War*. S.l.: Charles River Editors, 2013. Print.

"Syria Profile - Timeline - BBC News." *BBC News*. N.p., n.d. Web. 18 May 2015.

Rafizadeh, Majid. "How Bashar Al-Assad Became So Hated." *The Atlantic*. Atlantic Media Company, 17 Apr. 2013. Web. 18 May 2015.

"Rami Makhluf Designated for Benefiting from Syrian Corruption." *Treasury.gov*. U.S. Department of Treasury, n.d. Web.