



Editors: Paul Rivlin and Joel D. Parker

Vol. 8, No. 4, April 25, 2018

Rami Makhoulf and the Syrian war economy

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The ascent of Bashar al-Assad in 2000 paved the way for a new rampant class of corrupt businessmen – often sons or relatives of the governing apparatus which inaugurated the Assad era in Syria in 1970. Thus, his fellow Alawite maternal cousin and close confidant, Rami Makhoulf (b. 1969) was able to become the wealthiest man in the country. Makhoulf's privileged position was well-known and became a lightning rod for popular rage and discontent during the 2011 Syrian uprising. Makhoulf used corruption, intimidation and governmental ties to expand his businesses and amass a fortune even without secrecy. Moreover, his predatory-capitalistic approach proved detrimental for the economy itself, limiting the Syrian middle class, as he earned the nickname of Mister Five – or Ten – percent, depending of the interest percentage he received on every loan his companies would make. In the analysis which follows, a focus on this particular player highlights the new opportunities for predatory capitalism which have been unearthed due to the Syrian war economy that emerged beginning in 2011.

Sanctions and business shift

In the March 2011 demonstrations held in the city of Dara'a, Syrian citizens raged against the magnate as well, in addition to chanting slogans against the regime, and

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burned a local Syriatel branch. This was not coincidental.¹ It was, in fact, an indicator that Makhoulf, despite his attempt at maintaining a low public profile, had indeed been included by the Syrian opposition as part of what they viewed to be an evil triumvirate responsible for having led the country to disaster. Makhoulf controlled several mafia-style businesses and monopolies which had worsened the economic conditions of many Syrians. The other members of the trio are Syrian president Bashar al-Assad, who was blamed for mismanaging the government and for being an elitist, and his brother Maher, who controlled Syria's brutal security apparatus.

On the international stage, Makhoulf had already been discredited and sanctioned; in 2008 the US Treasury National Department designated him as "responsible for having benefitted from public corruption of senior officials of the Syrian regime."² On May 11, 2011, a few weeks after the beginning of the uprisings, the European Union sanctioned the billionaire as well by forbidding his travel to EU countries and freezing his accounts therein. Alongside Makhoulf, twelve other members of Assad's inner circle were blacklisted, including Maher.³

Despite Makhoulf's occasional indication of his intention of exiting his businesses,⁴ it turns out that, on the contrary, he was too dependent on the fate of the regime to abandon the country or to passively accept the events that followed the 2011 uprising. In fact, he took full advantage of the horrifying conflict to further strengthen his grip on Syria and benefit from the new war economy that had begun to develop.

Now that many parts of the country have been destroyed, those close to the regime aim to capitalize on rebuilding projects. Most recently, thanks to a government decree, a spin-off of Makhoulf's Damascus al-Cham Holdings joint-capital investment firm is positioned to control a planned massive real estate project – including a large new shopping mall – in place of the slums of Damascus. This is specifically designed to attract a new elite class which will be loyal to the regime.⁵ Moreover, Syria expert Joshua Landis noted recently that Makhoulf's firm has received a license for Syria's first mortgage finance operation—giving the Makhoulf-Assad family even deeper control of the economy in addition to another mechanism for shaping the demographics of Syria's housing landscape.⁶

Illegal trade

In order to finance Assad's repression and build his own empire, Makhoul smuggled assets from Lebanon and Europe, in particular by monopolizing the tobacco trade. On May 25, 2011 Makhoul managed to receive a shipment of 90 million cigarettes distributed in 9,000 cases by IBCS, the Middle-Eastern partner of Japan Tobacco International (JTI). The cigarettes were loaded in the port of Limassol, Cyprus, a member state of the EU. Just four days earlier the EU had decided to impose sanctions on Makhoul's assets. Makhoul succeeded in bypassing the sanctions thanks to his Cypriot citizenship, which had been given to him a few months prior by its government, and which was later extended to the rest of his family.⁷ The tobacco shipment was unloaded in Makhoul's stronghold of Latakia port and distributed to duty-free shops under his control.⁸

The cigarettes were used as a source of income or even as an alternative currency to pay the regime-allied *shabiha* and other irregular battalions loyal to Damascus.⁹ The *shabiha* – literally 'ghosts' – started operating in the late 70's, during the Syrian intervention in Lebanon. Often possessing special ties to the regime, they terrorised the local population and ran tobacco and drugs in and out of occupied Lebanon.¹⁰ Rami Makhoul and Maher al-Assad used the *shabiha* to do the government's "dirty work" at the start of the uprising – beating, arresting, torturing, and killing civilian protesters who criticized the government.

Other trade agreements with European countries concerned security-related goods, telecommunications and IT supplies. In 2011, the state-owned Syrian Telecom Company (Syriatel) signed an \$18 million contract with the Italian firm Area Spa for the sale of monitoring systems to capture, record and decode data coming from users of phones, internet access points, and vehicles. Likewise, the regime signed various contracts with Western firms specializing in cyber monitoring and data tracking, acquiring the requested technology by bypassing pre-existent bans. In 2012, US President Barack Obama issued an executive order aimed to curb such purchases, alongside the EU parliament's enacting of a Digital Freedom Strategy law.

Despite such steps, acquired foreign technology and expertise enabled the Syrian government to create the Electronic Syrian Army (ESA) in March of 2011. The ESA was a group of pro-Assad hackers that launched cyber-attacks against opposition

activists, as well as against Western and humanitarian websites. Even though the exact relationship between ESA and government remained blurred and unclear, some demonstrators denounced the fact that Makhoul was directly involved in funding the hackers. Furthermore, as owner of Syriatel, he played an important role in tapping mobile phones and pinpointing subversive elements.¹¹

Food supply lines proved lucrative for Assad's inner circle as well. Given that the food market was excluded from foreign sanctions, Makhoul organized new distribution chains to ensure the welfare of the Syrian Arab Army and regime loyalists. He worked with Ayman Jaber and Samir Hassan, former employees at Nestlè Syria, to control the transport of imported tea, wheat and rice.¹² Food smuggling and government monopolies had the disastrous consequence of raising the prices of these necessities, a phenomenon worsened by the unequal distribution to the inhabitants, since priority – or even exclusive – access to staple foods was given to soldiers' family members and government affiliates.¹³

Ayman Jaber also became the master of fuel and oil smuggling. His activities date back to the 90's when he started a profitable oil route across the Syrian-Iraqi border under the supervision of the Syrian Ministry of Petroleum. During the civil war, his role has become more prominent. As rebels, followed by Jabhat al-Nusra and the Islamic State captured most of Syria's northeastern oil fields between 2012 and 2013, national crude oil production decreased from around 400,000 of barrels per day in 2010 to only 23,000 in 2014,¹⁴ making Syria totally dependent on foreign suppliers such as Iran and Iraq. Jaber signed a contract with Tehran for the delivery of 800,000 tons of crude,¹⁵ and created a number of militias, such as the infamous Suqour al-Sahra (Desert Hawks) to protect the route from Baghdad to Damascus. Various *shabiha* gangs were commissioned to patrol routes to the Latakia and Baniyas refineries where Iranian and Iraqi crude oil was shipped.

Charity and UN compensations

Non-profit organizations comprise another branch of Makhoul's empire. Despite his apparent resignation from the top position of Cham Holding Company,¹⁶ and the selling of the duty-free shops,¹⁷ he devoted part of his fortunes to his own charity

association, the al-Bustan Association (*Jama'iyyat al-Bustan al-Khayriyya*), or ABA. Al-Bustan was founded in 1999 as a local NGO in the coastal provinces of Tartus and Latakia.

With the eruption of the armed conflict, al-Bustan made a further shift toward government policy. Between 2011 and 2012, Makhoulf maintained the organization by supplying it with a large amount of money that had been earmarked for various humanitarian projects aimed to alleviate the suffering. These were not the real intentions though, since from the start al-Bustan acted as a pro-government machine. During the early days of the unrest, charity members paid off Syrian inhabitants who distanced themselves from the protesters or joined pro-Assad parades. Once violence escalated, the semi-governmental/non-governmental organization (GO-NGO) directed its help only to pre-selected targets, mostly security apparatus members and Alawites; the aid consisted mostly of salary payments, insurances, subsidies for families' 'martyrs' and scholarships for their sons.¹⁸ In addition, al-Bustan established armed groups, the number of which mushroomed between 2012 and 2013, and who participated in several important military campaigns. The Leopards of Homs – which declared expressly its affiliation to al-Bustan, the Dara'a Qalamoun, Katai'ib al-Jabalawi, and Dir' al-Watan militias were all sustained or controlled by Makhoulf.¹⁹ Far from bringing relief to the Syrians, these militias terrorised the citizens of Damascus and Suweida, and acted in concert with the Syrian Social Nationalist Party.

Although al-Bustan was highly compromised by its association with the regime's repression, it was able to cooperate with foreign and international actors. Indeed, UNICEF financed ABA by signing contracts worth \$267,933. ABA was certainly not the only compromised organization in Syria receiving United Nations funding. Other United Nations agencies compensated the Syrian Ministry of Tourism with \$9.3 million for use of the Four Seasons Hotel in Damascus, the headquarters of many pro-government diplomatic meetings and negotiations, which was under European sanctions.²⁰ Furthermore, Syriatel received from the UN an estimated \$700,000, in conjunction with the Syrian Computer Society, accused of having deep connection with the former Syrian Electronic Army.²¹

Conclusion: guns over butter

The web of illegal trade and the commitment of Rami Makhlouf suggests further decay for the Syrian economy. The conflict, instead of reshuffling the cards, has strengthened government elites and pro-Assad businessmen who, discredited by the international community, are completely reliant on regime survival. Corruption and crony capitalism have reached their peak, being able to outrun Western bans and sanctions, to the point of doing business with European firms. Even though such networks have been the engine of the Damascus political establishment, they could prove detrimental in the long-term once the war will be concluded. This corruption is contributing to the destruction of the economy, by abandoning manufacturing and especially agriculture in favor of real estate development in the wake of massive destruction. Politically, it has cancelled the role of the institutions through the creation of semi-independent warlords and entrepreneurs. Socially, the failure of governmental charities has fuelled sectarianism and hatred among the Syrians, compromising the post-conflict process and questioning the national identity. Finally, the moves by Rami Makhlouf and Maher al-Assad have made Syria all but dependent on their allies: the numerous military aid and contracts signed with Russia and Iran and the consequent Syrian debts will have huge repercussions on the future structure of the country.

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