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The Boomerang Effect: How Syria brought down Lebanon, which is bringing down Syria

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The Syrian regime has been in a state of crisis since 2011. Citizens in various parts of the country rose up in defiance of four decades of dictatorship. One family and a small circle of players had gained control both the security apparatus and the economy. The regime's response, then tacitly supported by many of Syria's elites, was to crush the rebellion. This led to a bloody civil war, the deaths of at least half a million Syrians and the displacement of 12 million from their homes, about half of whom fled the country altogether. An estimated 1.5 million Syrians became refugees in Lebanon, which has maintained close economic ties to Syria for centuries. In recent decades, Syrian elites have increasingly come to rely on the relatively more stable financial hub of Beirut. In 2011, Lebanon had a population of 5.2 million. Lebanon was historically closer to the United States and France than Syria and had pegged its currency to the US dollar already in the 1950s when it accepted Point IV development aid. While Syria remained aloof from the West, Lebanon re-established this dollar peg in the late 1990s after a chaotic economic period during its civil war (1975-1990). At that time Lebanese prime minister Rafiq al-Hariri wanted to rebuild the economy. Today, as the Lebanese economy is on the verge of collapse from the weight of political mismanagement and the effects of Syria's conflict, the Syrian economy is plummeting along with it.

The intensity of the economic crises in both countries is exemplified in currency devaluation in recent months.[1] Additionally, a new layer of sanctions against Syria signed into law by US President Donald Trump in December 2019, called the Caesar Act, is set to take effect on June 17. The language of the Act calls for regime change, and targets its Russian and Iranian allies, as well as any other country that might consider doing business in Syria. Ten Syrians were added to a list of targeted persons now totaling 39 of Syria's top business and governmental elites. Importantly, the Syrian president's wife, Asma al-Assad, is included in US Treasury Department's list for the first time. Much of the humanitarian aid distributed in Syria must be coordinated with official charity institutions that operate in her name.[2] Although humanitarian aid is still allowed – and one of the central demands is that the regime to stop blocking it from reaching rebel-held areas – many international companies and NGOs may steer clear of Syria, at least until it is clear how aggressively the US will enforce these sanctions. Companies that use dollars or international banks are directly exposed.

The currency exchange rate collapse began in August 2019. This June, the Syrian pound was trading on the black market at less than a third of its official value, a whopping S£3,000 to the US dollar. Before the uprising in 2011, it was about S£47/$1. The crisis has turned Syrians inside regime-held territory to dark humor. Some openly mock the currency on social media: using it for cigarette papers, and joking, "Hafez [Bashar's father who appears on a S£1000 bill] is now worth a quarter."[3] There has been a more than 111 percent rise in the cost of food over the past year according to the World Food Organization. Government salaries cannot keep up with the double whammy of inflation and currency devaluation. They had increased from an average of 20,000 Syrian pounds to 40,000 in the period from 2011 to 2019, which was a reduction in dollar terms from about $400 to $55.[4] But now the government cannot pretend to offer a living wage.

The Assad dynasty has tended to use a paternalistic 'carrot and stick' approach to governance under the guise of social welfare for all. However, specific groups have often been neglected in times of economic difficulty exposing the gap between the government's socialist promises of general welfare and the brutal reality. This has led to unrest among communities that were left out. One study has compared economic patterns in the late 1970s when intellectual dissidents and pious Sunnis turned against the secular-authoritarian regime in the lead up to the Hama Massacre of 1982 with in the period leading up to 2011, when years of drought caused distress among rural populations even though the general economy was growing.[5] However, the current financial instability carries an unprecedented intensity, after nine years of civil war, and is pushing the impoverished masses towards starvation. Syrian elites are no longer profiting after years of evading the existing American and EU sanctions by putting their money in Lebanon, or Russia if they could.

The Caesar Act is designed to affect all regime supporters, whether rich or poor. Conversely, liberated areas are being hit differently. In Turkish-controlled North Aleppo and Idlib, the Turkish lira has rapidly become the preferred method of exchange offering some protection from the collapse of the Syrian pound. The Act excludes northeastern Syria where there is a US military presence, but the residents still use the Syrian pound, and are also affected by inflation. Residents of Qamishli, for instance, have complained that they can no longer afford basic food items.

The Syrian Pound has nothing to fall back on, especially since sanctions may scare away the few Gulf investors who had begun to cautiously enter the reconstruction market.[6] While it is difficult to gain an accurate picture of the Syrian foreign currency reserves, and specifically the amount of dollars owned by the Syrian Central Bank, they are likely to be negligible. This is evidenced by reports that the total amount of gold and foreign reserves had fallen from around $21 billion in 2010 to less than half a billion in 2017.[7]

International financial organizations do have a relatively clear understanding of Lebanon's dwindling foreign reserves. For instance, already in April 2019, the World Bank reported that by the end of 2018, Lebanese foreign reserves were down for that year by $2.3 billion to $39.7 billion, which would only pay for imports for 13.5 months.[8] So while Lebanon was in a dangerous position according to outside observers, it was at least far better than Syria's foreign exchange situation. During most of the Syrian civil war, wealthy Syrians found that Lebanese banks were willing to help them evade sanctions and provided investment opportunities. Syrians who wanted to trade on the international market had to go through Lebanon (or turn to distant countries like China, Iran or Russia). Lebanese external debt levels, meanwhile, were reaching 150 percent of its annual GDP, raising questions on how Lebanon would pay international debts with the very foreign reserves that Lebanese and Syrian investors possessed on paper. In fact, because some of the foreign currency payments Lebanon's Central Bank owes, such as the Eurobond, is more than two-thirds held by local investors. The March decision not to pay for the $1.2 billion Eurobond debt was therefore a message to local investors as much as it was to foreigners.[9]

As a result, Syrians were unable to extract deposits from Lebanon, just like Lebanese depositors. The Syrian pound fell in tandem with the Lebanese pound relative to foreign currencies. Then in March 2020, the Lebanese government announced that it was temporarily unable to service its foreign debts. This may have been part of a negotiation strategy as the government tries to avoid making painful reforms required by the International Monetary Fund to secure a long-term loan and debt restructuring plan. The IMF has promoted are a substantial currency devaluation for Lebanon, but removing the dollar peg altogether would have a long-term negative effect on the Lebanese finance industry.[10]

With the incoming Caesar Act sanctions on Syria, it is unlikely that any short- or medium-term boost of the Lebanese economy will deliver a significant boost to the Syrian economy. On the other hand, the Syrian crisis has affected Lebanon negatively, and will continue to do so as long as it goes on, both in a direct sense by the presence of refugees and fewer trade opportunities, and also in an indirect sense by isolating Lebanon as virtually the only country in the Middle East that openly and enthusiastically supports the regime of Bashar al-Assad. In many ways, the Syrian civil war has had a boomerang effect, harming the Lebanese economy, and ultimately removing one of the few pillars of foreign currency support that Syria might have had otherwise.

Since 1997, the Lebanese pound has been pegged to the US dollar. It is still officially set at about 1,500 Lebanese pounds to the dollar for state-led imports of medicine, basic foods, and fuel. However, the local exchange rate of the Lebanese pound, which is used in an estimated 70 percent of the transactions in the market economy, fell to L£4,100 pounds to the dollar (and some say even further, but the free market trading froze).[11] This has cramped the lifestyles of the wealthy, and pushed hundreds of thousands to the brink. The tourism industry has all but collapsed, and historic hotels – even ones that survived the Lebanese civil war of 1975-1990 – now saying they will have to permanently close.[12]

The effects on Syrian refugees in Lebanon are largely unknown due to the informality of their labor situation there. Officially, Syrians could work for six months if they applied for a permit immediately upon entering Lebanon. In practice many Syrian refugees have not been granted such permits, or they have been unable to renew them due to poor management by the Lebanese authorities or due to the prohibitive costs involved. Nonetheless, Syrian refugees were sending remittances to Syria while there were legal or illegal jobs for them. Because the transfers tend to be informal, it is difficult to gauge exactly how much money was being sent. However, with over one third of the Lebanese workforce presently unemployed, it is unlikely that Syrian refugees are doing very well in the scarce job market today, especially with the economic slowdown due to measures intended to prevent the spread of COVID-19.

For many Syrians, investing in Lebanon was safer than investing at home. However, only a few of the über-elite, such as Rami Makhlouf (the maternal cousin of the President) and his family, were able to come up with grand strategies for avoiding Western sanctions and local economic weakness, for instance, by investing in Russian real estate. It was reported that the Makhloufs own properties worth at least $40 million in Moscow.[13]

In the past year, Russia has asked Bashar al-Assad to pay up for services it is providing to prop up his regime. Assad claims that he did not have any, and so the Russians response was to point out that the Makhloufs clearly do have money – leading to Assad's campaign to arrest those working for his cousin, and accuse Rami of not paying taxes on some of his business interests in Syria.[14] As a result, Rami Makhlouf personally appealed to the Syrian people via Facebook to forgive him for any mistakes but not to allow Assad to take all his money. This fight among the most prominent 'Alawi families in Syria has another angle, wherein Bashar's wife Asma (a Sunni) has also come out against the Makhloufs, setting off a complex struggle between the largest networks of charity organizations – one side controlled by Asma and the other by Rami.

Syrians have also suffered unknown health and economic effects from the COVID-19 virus. While Syria has now diagnosed hundreds of cases, the lack of reliable information forces researchers to rely on anecdotal or circumstantial evidence regarding the late, and drastic measures taken in Damascus and other cities to lockdown the population as proof that the virus is likely widespread.[15] Such lockdowns presented opportunities for officials in the regime to extract bribes to allow for some freedom of movement and clandestine business operations. Amid these new layers of misery, some of the longest suffering populations, such as the Druzes of Suweida have begun to show signs of ferment, pushing some analysts to wonder if *la fin du règne* is near.[16]

External allies who have stayed with the regime until now are also affected by the cascade of economic problems facing the region. Iran, for instance, has been weakened by the devastating effects of the corona virus, whose official death toll is much lower than the likely reality.[17] The loss of oil revenues due to the drop in the price of oil, which the Iranian regime had anticipated to remain at around $50 a barrel for 2020-2021, instead falling to just $14 a barrel in April, has coincided with lower export abilities which went from 287,000 barrels per day in March to just 70,000 average barrels per day in April.[18] Iran has spent anywhere from $30 billion to $105 billion in Syria over the past nine years, and no one knows how Iran will break even. In 2010, Iranian exports to Syria amounted to $516 million, and currently the ability of Syrians to purchase Iranian goods is considerably less.[19]

The COVID-19 and oil crises have come amid intermittent Israeli bombing of Iranian positions in Syria. The Islamic Republican Guard Corps (IRGC) and its funding network keeps essential activities in operation without respect to the Iranian state budget. Nevertheless, global economic problems could undermine Iran's ability to finance proxy forces, like the mercenary Fatemiyoun Brigade comprised of Afghani Shiʿis, who's estimated 10,000-20,000 fighters in Syria were initially promised hundreds of dollars a month each to bolster Iranian aims in Syria.[20] With the decline of the Islamic State, led in large part by the American-led Coalition there is a reduced need for militia fighters in that arena. They would be needed, however, to protect Iran's hoped-for infrastructure projects. In November 2019 Iran secured a deal with the Syrian regime, to repair the damaged electrical grid. This project currently has no financial legs to stand on.[21] Iranian promises to build a new oil refinery, among other grand plans, may be further complicated by the Caesar Act.

The Ceasar Act, could, if implemented in full, prevent Russian oil companies from carrying out oil exploration in eastern Syria. This could have at least helped supply Syria's own needs, so it would be less dependent on Iranian crude imports. In the past, US sanctions were unable to prevent Russian economic aid to Syria, including cash transfers to Syria's Central Bank, which is how Syria has avoided currency collapse in earlier stages of the war.[22] However, the latest round of sanctions could also slow down repairs and reconstruction of infrastructure. The damage to infrastructure has been estimated at $3.2 billion, according to the UN, but it would cost far more to repair and upgrade it to standard levels.[23]

In the big picture, following our article on Syria's dilemmas which appeared in March of 2018, the economic outlook is much worse in Syria than one might have projected if the conflict were to end.[24] Then it looked like the regime together with Russian, Iranian, and Hizballah support would retake Idlib and perhaps force out the United States and begin reconstruction with some of the oil output that would have been incorporated into the regime's recovered territory. Then US President Trump announced last October that he wished to withdraw all US forces from northeastern Syria – an area heavily populated with ethnic Kurds, who participated and sacrificed enormously alongside the US-led coalition in the fight against the Islamic State.[25] However, this has yet to occur, and Turkey has been tenaciously protecting its corner of Syria much to the chagrin of the Syrian regime.

In regime-held areas of Syria, signs are growing that the youth are once again experiencing the urge to protest, as they have in Iraq and Lebanon since the fall of 2019.[26] Syrian youth in regime-held areas today, might be too scared, worn out, and economically fragile to call for a complete downfall of the regime as they had in 2011, knowing that today's alternative includes Islamists. Yet it appears that complaints on social media by Syrians in regime-held areas were instrumental in pushing Assad to fire the prime minister and call for a new Cabinet on June 11.[27] This could be a sign that Russia's president Vladimir Putin might see this moment as the opportunity to push Assad to end Syria's isolation and break the diplomatic stalemate. Assad's intransigence and the Caesar Act will harm Russia's ability to profit from its investments in Syria.[28] Whether by design or not, the new US-led sanctions on top of the Syrian economic disaster put the ball in the court of Syria's foreign backers, including Lebanon, who have to choose between a failed state, or produce some kind of breakthrough that could end the Civil War.

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