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ANALYSIS: No Business as Usual in Syria

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No Business as Usual in Syria

Facing violence and destruction since the start of the conflict, Syrian businesspeople have been forced to shut down or reduce activities—a number fleeing the country and taking significant capital with them. Today, though the Syrian regime has survived the conflict and an end to the war may be in sight, Syria's economic future remains uncertain. Whether the country is able to reach a new "economic normal" that is broad, inclusive, and accessible to wide swaths of the population will depend in large part on small and medium-sized businesses—95 percent of Syria's prewar economy—resuming their activities and reinvesting capital in Syria.

For its part, Damascus has expressed its desire to secure investment and restore economic activity, and it has made multiple overtures to high-level expatriate Syrian investors. The regime sent formal delegations to Egypt in February 2017 and to the UAE in January 2019, received delegations of expatriate Syrian businesspeople, and encouraged tours of domestic industrial sites. But this outreach alone is unlikely to convince the majority of Syria's business community—abroad and in-country—to reinvest.

Instead, a set of individual level considerations, namely the distribution and mobility of assets and the costs and risks of reinvestment—alongside the broader economic and security conditions in Syria—play key roles in shaping whether and how these businesspeople will reengage. From interviews with members of the Syrian business community and figures adjacent to them, it is clear that these pragmatic considerations, in addition to concerns of personal security and the status of family and community networks, are the primary factors driving their decision calculus. The prospects for wide-scale capital return in the near future remain bleak, but how these factors evolve will shape the business community's reengagement.

Considerations before the business community

During the conflict, capital flight intensified as Syrians moved assets outside the county—much of it to Turkey, Egypt, Lebanon, the UAE, and Jordan. Between 2011 and 2017, Syrian expatriates and refugees registered more than six thousand new businesses in Turkey—most of them small and medium-sized trade and manufacturing companies located in Gaziantep, Istanbul, Kilis, and Hatay. Egypt too hosts predominantly medium-sized and small enterprises, many of which are manufacturers that relocated from Aleppo's war-torn industrial zone. A small fraction of those who relocated have been able to maintain their activities in Syria, even if downsized. A 2017 survey of 230 Syrian businesses in Turkey, for example, found that 10 percent of those with businesses in Syria had kept them running.

As businesspeople consider the possibility of reinvesting in Syria, those who have a presence in multiple countries have more leeway to choose which environments will be more conducive to concentrate and expand investments. If Syria is amenable, they will invest there, but otherwise they will prioritize alternate locations. Those who have higher risk thresholds may be more inclined to test the waters with small investments, even if they will make minimal profits or are forced to run at a loss, in the hopes that by establishing themselves early and learning the challenges of the environment, they will secure better market access and have an advantage over those who may return later. Meanwhile, those who have investments in Syria they do not want to lose—especially if they have fixed assets or limited alternatives—will be more inclined to try to endure difficult conditions, but they will not necessarily expand or even survive in the long term.[1]

A difficult environment

Conditions on the ground continue to present serious short and long-term obstacles. Perhaps most visibly, destruction across the country has resulted in considerable infrastructural damage and lost and disrupted livelihoods. The ongoing fuel crisis further undermines economic activity, curtailing movement and increasing prices for basic goods. Manufacturers also face difficulties acquiring raw materials and machinery needed to restart production. Broad sanctions cause significant delays or force these manufacturers to rely on illicit, black market channels for importing goods and equipment at significantly higher prices.

Lack of market demand, a result of flight, extreme poverty, and reduced purchasing power, also undercuts Syria's businesses. Labor shortages—caused by displacement and, in parts of the country, an immobilized populace who fears arrest, detention, and conscription—make it difficult for businesses to hire and retain workers even after they have "settled their statuses."

Furthermore, Syria's small and medium-sized business community face an array of new and old predatory actors empowered by the conflict. Militias, military factions, and intelligence actors extract payments from businesspeople at both fixed and "flying" mobile checkpoints that are concentrated along major trade routes and in industrial areas. Despite some ease of movement in the past few years as the regime has regained territory, these checkpoints continue to inhibit transit, raising the ire of investors both inside and outside the country.

Militias and private actors have also been accused of dominating and disrupting local and state-level services to force Syrians to pay for their own services—either formally or on the black market. Militias have kidnapped the children of businesspeople, demanding ransoms for their return, and they have even begun buying up businesses and property to launder their gains, undermining potential investors' market access. The new rivals, networks, and informal rules for local economic activity create considerable uncertainty and fierce competition for businesspeople seeking to reinvest.

Impacts of early reinvestment

With these challenges, early reinvestment will continue to be small, but it will shape the environment and context for potential future investors. Returning business has had some limited positive impact in local communities, marginally improving quality of life, and, to a small degree, ameliorating harsh economic conditions.

Anecdotal evidence provides some indication. Since the regime retook Aleppo, for example, one business owner—who had relocated to Saudi Arabia at the outset of the conflict—has been able to return and restart his restaurant, now serving over 100 people per night. Another small business owner was able to reopen his cafe, and while he now runs at limited capacity, significantly below what he could do before the war, and faces significant challenges getting diesel and other needed resources, he is able to employ a small part-time staff. A small factory owner who had relocated operations to Turkey during the war was able to partially restart his plant in Aleppo with 20 percent of his previous workforce—just

[1] Authors' interviews with Syrian businesspeople and adjacent figures from April to June 2019, Beirut, Lebanon, and Istanbul, Turkey.

barely breaking even. Though he hopes he will be able to expand and bring his family back to Syria in the future, he does not expect to do so any time soon.[2] Challenges aside, small investments like these can have positive, albeit extremely modest, impacts, producing some limited employment opportunities, bringing services, and providing spaces for social and community life to take place.

Concurrently, returning capital also has negative consequences, creating new streams of money for armed actors to predate upon. As this continues, these armed actors may grow more entrenched and self-sufficient, making any efforts by Damascus or Russia to rein them in all the more difficult. Moreover, businesspeople are forced to continue purchasing black market fuel, smuggling goods, and bribing officials to navigate deleterious conditions, thus reinforcing these practices. As one Damascene trader put it, "Yes, I'm part of the war economy. What choice do I have?" This will reinforce high barriers to entry for even basic economic activity and threatens to restrict opportunities to narrow networks of connected or moneyed actors.[3]

In all cases, the successes and failures of early returning capital will continue having a cyclical effect, directly or indirectly influencing the decisions of investors abroad who rely on contacts in Syria to weigh the possibilities and challenges of returning. Thus, while successful returning capital could potentially lead to further investment, negative experiences deter those still on the fence.

As businesspeople decide whether to reinvest, they will be looking at these possibilities and constraints and taking the steps that make the most sense for their lives and livelihoods. In aggregate, these individual level decisions, made against the backdrop of prevailing economic and security conditions, will form the bulk of Syria's postwar economic activity (or lack thereof). While the current challenges are such that returns are likely to be limited and early successes unlikely to trigger systematic reengagement, it is important not to view Syria's economy as a binary—either on a trajectory toward full recovery and prewar activity or toward immutable decline and stagnation. Syria's postwar economy has already begun taking shape; for the foreseeable future, it will be uncertain, fragmented, inconsistent, and highly changeable.

[2] Authors' interviews with Syrian businesspeople and adjacent figures from April to June 2019, Beirut, Lebanon, and Istanbul, Turkey.
[3] Author interview with Syrian businessman, April 12, 2019, Beirut, Lebanon.

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