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# Understanding the Impact of Sanctions on the Political Dynamics in Syria.

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## About the Conflict Research Programme

The Conflict Research Programme is a four-year research programme hosted by LSE IDEAS, the university's foreign policy think tank. It is funded by the UK Foreign, Commonwealth and Development Office.

Our goal is to understand and analyse the nature of contemporary conflict and to identify international interventions that 'work' in the sense of reducing violence or contributing more broadly to the security of individuals and communities who experience conflict.

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## Executive Summary

This paper argues that Western policy on sanctions should be part of a broader strategy for addressing the conflict in Syria. A key part of this should be transforming a conflict economy into a productive economy. It proposes that conditionality for lifting sanctions should be multi-level rather than top down, aimed at benefitting independent business, civil society, and ordinary people, who represent the main hope for a more peaceful Syria.

The paper adopts a systematic multi-actor methodology in order to analyse the impact of Western sanctions on Syria. It identifies three phases of sanctions:

- April 2011 to August 2011, when sanctions were targeted at key regime figures.
- August 2011 to May 2014, when the sanctions targeted the main economic sectors, including banking and energy.
- May 2014 until now, when sanctions have also targeted external actors, mainly Russian financial institutions.

The main findings are that the sanctions failed in their main aim to change the regime or its behaviour. Throughout the three phases, sanctions have had no clear impact on the core military and security institutions. In contrast, sanctions have directly contributed to:

- Greater reliance of the Syrian regime on Russia and Iran, and less political leverage for Western countries.
- The establishment and strengthening of a network of warlords and 'cronies' with a vested interest in regime survival and a criminalised economy.
- A massive deterioration in the formal economy associated with a weakening of legitimate business and civil society, and increased suffering of ordinary people.

We argue that it is not possible to reverse these effects by a blanket lifting of all sanctions, because released resources could be channelled into the conflict economy. Rather a multi-level, differential approach, involving what we call meso-level conditionality, is required, which would:

- Provide targeted support for independent business and civil society to give more agency to these sectors of society and to lessen the humanitarian suffering in a more sustainable way. This would require parallel financial and legal mechanisms.
- Specific sanctions relief and exemptions to undo the harm to the health and education sectors, as well as the food and energy sectors, so as to be able to cope with the Covid-19 crisis, and also the bread and fuel crises currently facing Syria.
- Establish a monitoring system to make sure that continued sanctions, for instance in the banking sector or against members of the regime, do not harm ordinary Syrians. Such a system should guarantee that specific sanctions exemptions would not benefit the regime and its cronies.

## 1 Introduction

Forty days after the onset of the Syrian uprising, the USA, the EU, and its member states started increasing the use of sanctions on Syria as a foreign policy tool. This was meant to be part of a comprehensive strategy to confront and dismantle the foundations of the authoritarian regime in Syria. But after a few years, it became clear that the regime was able to survive sanctions and all other restrictive economic measures through various means, including support from its allies. The regime was able to limit the impact of the sanctions on its core military/security institutions and reallocate available resources to serve its interests at the expense of the majority of ordinary Syrians.

Ten years on, it is also clear that sanctions failed to stimulate meaningful political change. On the contrary, some of the sanctions contributed to the development of a milieu that is more conducive to oppression and that further excluded ordinary citizens and independent businesses. Sanctions have also greatly weakened the influence of western countries on the evolution of the conflict.

With the recent acute deterioration of the Syrian economy and the rapid increase of the number of Syrians living well below the poverty line, and with the Syrian government failing to provide even the basics of bread and fuel for the people, the debate on sanctions on Syria has been reignited. The main contesting views on the issue vary: a) one view is that the regime is the only actor to blame for the economic deterioration and that sanctions are an accountability tool that should not be eased unless the regime changes or fully complies; b) another argument is that sanctions should be used as tool of leverage and persuasion tool to influence the political process in a give-and-take negotiating process; and c) finally there is the view that all sanctions should be lifted to end the harm they have caused.

We argue that first the sanctions in the Syrian context cannot all be debated under the same heading as the impacts of different sanctions differ greatly. It is not suitable to adopt one analysis and policy approach for all the sanctions together. Second, the impact of sanctions cannot be simply reduced to the binary of good or bad, renewed or lifted. We argue for a comprehensive approach that looks at all the main actors in this complex conflict, including those not targeted by sanctions, and how different sanctions have affected all these actors, and the dynamics to which they contribute. The analysis should also follow the changes affecting the actors, their relationships, and the overall economy through different phases over the last ten years.

Our systematic analysis in this paper uses a multi-actor approach that looks at the impact of the different types of sanctions throughout the different phases of the conflict on 10 main categories and 6 sub-categories of social and political actors. These include both top-level actors and ordinary people. When such analysis is used, a different picture emerges whereby the impact of the sanctions is identified at all levels within the complex conflict scene where many other dynamics are at play. The analysis makes it possible to differentiate between the conflict dynamics that the sanctions have accelerated, and those that they have mitigated.

Two main implications for policy arise from this analysis. First, the process through which the sanctions influence the economy and the conflict is nonlinear; the simple lifting of the sanctions does not necessarily reverse its consequences. Second, conditionality for lifting or easing the sanctions should not only focus on the behaviour of top-level actors. It should be expanded to include medium and small, low-level actors and introduce meso-level conditionality that helps to strengthen independent business and civil society and contributes to improving the well-being of ordinary Syrians.

A comprehensive understanding of sanctions using an actors-based approach would also help policy makers and international actors to adopt practical mechanisms and criteria in implementing targeted sanctions to mitigate the negative impact on Syrians without legitimizing criminal and authoritarian actors.

In the rest of this paper, we start with a brief review of the literature that analyses the role of sanctions in reshaping internal dynamics in similar contexts to the one in Syria. We then outline the major resources of the country and its main actors before the conflict, followed by an analysis of how these actors, their resources, bargaining power and relations have changed throughout three main phases of sanctions in Syria since 2011. We end with a summary of our analysis and policy recommendations.

## 2 Sanctions within the Syrian Context

Syria is a country run by an authoritarian regime, which excludes most of the Syrian people politically, socially and economically. The regime has developed its own core institutions to protect itself from any conflict that may dismantle its foundations; they include security and military entities and the Baath party, and they function almost independently from each other but are managed by the President. The internal actors use coercion and extensive illegitimate violence to protect their interests. They are not accountable to but are in control of the judiciary system, the parliament, and the executive government. These core institutions work with crony capitalists and the business elite to sustain their control over the country's resources and potentials. This was the situation before the conflict began in 2011. Since then, all the above was accentuated. Syria witnessed a proliferation of para-military groups. Many of them work in coordination with the regime's core institutions and its allies. The coercive measures practiced by the regime have expanded during the conflict.

The conflict in Syria has damaged traditional businesses and led to the emergence of new war elites (Abboud, 2017). The war economy was accelerated in the country and became an active driver of the conflict (Bojicic-Dzelilovic & Turkmani, 2018; Rim Turkmani, Ali, Kaldor, & Bojicic-Dzelilovic, 2015; Yazigi, 2014).

The EU member states, USA, and other countries have imposed a range of sanctions on the Syrian regime as a direct reaction to its brutality against civilians. These sanctions have had limited impact on changing the regime's behaviour. Thomas (2013) argues that sanctions in Syria have limitations: "If sanctions continue to be implemented in the manner that they are today, they will be looked at by historians and academics in years to come as ultimately ineffectual political tools that do more to divide states than create a secure international community".

This is in line with much of the literature on sanctions (Galtung, 1967; Haass, 1998; Seekins, 2005; Wallensteen & Sollenberg, 2001), which provide evidence that economic sanctions in general are rarely effective in achieving the required policy changes. This is particularly the case when sanctions are applied against authoritarian regimes (Lektzian & Souva, 2007). Niblock (2001a) also adds that after the Cold War sanctions were mostly ineffectual at maintaining international order and that in Libya and Iraq, they were never a catalyst for change.

Many indicators show that sectoral economic sanctions on Syria have primarily hit ordinary people (SCPR, 2014b). This has impaired the wellbeing of people and thus their ability to resist oppression and achieve political reform. Different studies indicate that there is no clear transmission mechanism



that causes social suffering and economic difficulties to be translated into political change, particularly in authoritarian regimes (Baldwin, 1985; Jentleson, 2000; Lopez, 1999). Allen (2005) suggests that targeted regimes may use sanctions to justify tightening their repressive measures, leaving people with less hope to achieve any reform. Sanctions also could have a long term negative impact on political reform and participation. Niblock (2001a) maintains that sanctions lead to damage to the infrastructure of the state, counteracting efforts to politically integrate the population in the longer term, and after the conflict.

Networks of wealthy 'cronies' and warlords are the typical actors to benefit from the rents and the black market activities that flourish during a conflict (Dorussen & Mo, 2001; Niblock, 2001b), and the lack of resources often leads to the redirection of economic pressure onto vulnerable sectors of the population while the regime protecting itself and its supporters (Cortright & Lopez, 2000). Many studies also highlight that authoritarian regimes, like the Syrian one, change internal actors' dynamics to capture the rents usually associated with economic sanctions, and to redistribute resources for the benefit of their supporters (Kaempfer, Lowenberg, & Mertens, 2004; Lektzian & Souva, 2007). Literature shows that the effectiveness of economic sanctions correlates with the international cooperation and trading between the country targeted by sanctions and external actors (McLean & Whang, 2010). This means that sanctions have more economic impact on a country when they are imposed by its main trading partners.

The Syrian regime frequently claims that sanctions aim to destroy Syria as a state, and uses the sanctions to explain all the economic difficulties the country is facing, which is a typical rhetorical device in authoritarian regimes. The literature shows that leaders in authoritarian regimes targeted by sanctions use sanctions to mobilize support, as they project them as a clear external threat that everyone in the country should rally together against (Miyagawa, 1992). Alexseev & Hale (2020) also note that critics have long warned that sanctions can backfire in at least one of two interrelated ways: (1) by rallying domestic public support for the target state leadership; and (2) by allowing that leadership to shift the blame for economic problems onto international aggression.

Sanctions on Syria also resulted in a major redistribution of external political influence over the regime. EU states, which used to have sizable political leverage in Syria before the conflict, lost their ability to influence the behaviour of the regime (Kaldor, Rangelov, & Selchow, 2018; R. Turkmani & Haid, 2016). At the same time, sanctions forced the Syrian regime into full financial dependence on its allies, particularly Iran and Russia.<sup>1</sup> While sanctions could have weakened the regime financially, they provide these supporting states with the opportunity to subjugate the regime even more to their interests (Rim Turkmani, Theros, & Hadaya, 2019; Yazigi, 2014).

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<sup>1</sup> While Russia and Iran have completely two different agendas in Syria, they are both in the same category in terms of their policies against sanctions imposed in the Syrian regime.

### 3 Methodology

Contemporary conflicts involve a complex web of actors and relations, both internal and external. To understand the role of sanctions in affecting the Syrian regime's structure, policies and decisions, it is vital to investigate whether, and if so, how the sanctions contributed to the composition of old and new actors, and how the lifting, partial or complete, of the sanctions might empower or undermine different actors, their relations and resources and to what end. We adopt an actors-based approach to understand the direct and indirect impact of sanctions on each type of actor and its coping policies to overcome or mitigate the negative effects of sanctions by outlining the general transformations that sanctions may have caused to the resources and networks of these actors. Identifying these changes could help policy makers to adjust their current tools or develop new ones to reshape the internal power dynamics in the country.

To identify the main actors, we relied on our previous mapping of Syrian actors as part of our Mapping Syria project.<sup>2</sup> This project has benefitted from the input of key informants inside the country to map and describe the different categories of social and political actors. We extended the list of actors by adding the new category of "international businesses" since some of them have been directly targeted or affected by secondary sanctions on Syria.<sup>3</sup>

Since sanctions are among the many other factors that have changed actors' dynamics, powers, and relations in Syria, it is important to analyse them in the context of these other factors. This context has changed over the years. The list of actors targeted by sanctions has also regularly expanded over the years to correspond with changing western objectives. Accordingly, we identify three main phases for analysing sanctions' dynamics in Syria. Each phase is shaped by certain military and political events that denote the behaviour of different parties towards sanctions.

**Phase I:** began with the first set of sanctions on Syria after the onset of the uprising, targeted the main regime figures and were first imposed in late April 2011. It ended in August 2011 when sanctions started targeting Syria's main economic sectors and western countries demanded that the Syrian President should step aside. The main declared objective during that phase was to change the behaviour of the Syrian regime.

**Phase II:** began in August 2011 and ended in May 2014, when the USA imposed sanctions on a Russian bank. The main declared objective during that phase was to change the Syrian regime by destroying its economic foundations and resources.

**Phase III:** began in May 2014, when the USA also targeted financial institutions in Russia. This phase continues to the present day, topped by the recent implementation of the Caesar Act that sanctions any foreign entity dealing with or supporting the Syrian regime. It aims achieve additional bargaining power with the regime's allies, and other countries in the region, in order to change its behaviour and for the Americans to have more influence in Syria.

Figures 3, 4 and 5 illustrate and summarise the impact of the sanctions during each phase. The figures simplify the relations between and within the three main different groups of actors; the directly

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<sup>2</sup> See [www.mappingsyria.org](http://www.mappingsyria.org)

<sup>3</sup> Primary sanctions prohibit entities and individuals of Syria from engaging with their counterparts from the sanctioning countries. Secondary sanctions target third parties to stop activities with Syria by threatening to cut off relations with the sanctioning countries.



affected actors, indirectly affected actors, and external actors. The simplification aims to draw a general picture of changes in actors' networks and resources under sanctions.

In these figures, we include four main types of relationships:

- Coercion-based relationships (black arrows), in which one actor uses or threatens to use violence to dominate another actor. This type of relationships is notable, for instance, between security agencies that have control over the use of legal and illegal violence, and other local actors such as civil government entities, small businesses, and households.
- Interest-based relationships (green arrows), in which a relation between two actors is based on mutual financial interest. For example, the relationship between business elites and security agencies, where the later facilitate business transactions in order to gain money (corruption) or to fulfil economic needs at macro level such as securing the availability of basic goods in local markets.
- Law-based relationships (red arrows, in which actors have their influence through the official laws and regulations,<sup>4</sup> such as the relationship between civil government entities and small businesses or households.
- Partnership relationships with external actors, where we used trade relationships between Syria and foreign countries as a simple proxy for partnership. The thickness of the arrows increases with the volume of trade between Syria and the specific country (or group of countries).

It is worth noting that the figures illustrate the most prevalent relationships between actors, but not the only types of relationships. For example, security agencies use coercive measures to control some business elites, yet mutual interest is the dominant factor of security-business elites' relationships.

#### 4 Main actors in Syria and their relations

In this section we chart the actors directly and indirectly affected by sanctions on Syria. For simplicity we divide the actors into ten interlinked main categories that fall under two main groups. The first group includes 6 actors affected directly by sanctions, and the second one has 4 actors that are indirectly affected. Each of the 10 actors represents a set of sub-actors. Only the "government" is included as an actor in both groups, but with different sub-actors of the government itself. The six actors in the first group are: the military and security institutions, the government officials and entities targeted by sanctions, the energy sector, the banking sector, the regime-linked business elites ('cronies')<sup>5</sup>, and international businesses targeted by sanctions due to their alleged support to the Syrian regime. The second group includes: the government officials and entities not targeted by sanctions, the independent Syrian business sector, the NGO and civil society sector, and households

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<sup>4</sup> Although coercive measures are the core of internal power dynamics in Syria, like other authoritarian regimes, but they are not sufficient to sustain control; thus, they also use legal power and the power of interests, including benefits. See for example Dan Slater and Sofia Fenner (2011): "Inside the Authoritarian State, *Journal of International Affairs*, Vol. 65, No. 1, pp. 15-29.

<sup>5</sup> We use the term cronies for business elites who have strong ties with the regime's inner circle. It is similar to the term political elites used in political marketplace analysis but the focus is on businesspersons rather than politicians.

including ordinary citizens. The two groups are summarised in Figure 1 and Figure 2 and explained in more detail below.

	Type	Actor
Directly affected by sanctions	Military and security	Military and security entities
		Military and security individuals
	Government	High ranked officers
		Ministries
		Public establishments
	Energy sector	Public energy entities
		Joint sector energy entities
		Energy private companies
	Banking sector	Central Bank of Syria
		Public banks
		Private banks
	Crony business	Reconstruction-related entities
		Crony capitalist/entities
		Warlords and new cronies
	International business	Businesspersons and private companies
		Foreign banks

Figure 1 The list of actors directly affected by the sanctions.

	Type	Actor
Indirectly affected by sanctions	Government	Non-sanctioned public entities
	Independent Business sector	Micro business entities
		SMEs
	NGOs sector	Non-governmental organizations
Households	Households and citizens	

Figure 2 The list of actors indirectly affected by the sanctions.

1. **Military and security actors:** There are four security entities including the General Security Directorate, the Air-Force Intelligence Agency, the Political Security Directorate, and the Military Intelligence Directorate. The main army entities active in Damascus are the 4<sup>th</sup> Armoured Brigade and Republican Guard (Omran for Strategic Studies, 2016). These institutions use coercion and illegitimate extensive violence to guard the regime’s interests. They play the major role in sustaining

the regime by using violence and brutality against any opposition or demonstrations such as those that happened in March 2011. They are not accountable to, but in fact are controlled by, other state institutions. They function mainly independently from each other but are all managed by the President (Omran for Strategic Studies, 2016).

These actors, before and after the conflict, had no or a minimal level of cooperation with western agencies, but their already existing relationship with Iran and Russia has developed, becoming much stronger after the conflict. The Syrian army mainly depended on Russia's support and had almost no relations with western countries and is not known to have received any financial aid or weapons from them. The solid relationship between the military institutions in Syria and Russia is not new as it goes back to the 1950s. Iran has always declared its strong security cooperation with Syria at all levels (Bani Nasur, 2014). Although these actors are mainly funded by the state, their income from illicit resources and rent-seeking activities exploded after the conflict and became a major source for many of the army and security generals who often compete among themselves over influence and the flow of basic goods which yield them lucrative income.<sup>6</sup>

2. **Government officials and entities:** They comprise ministries, public sector entities (such as schools and hospitals), the judiciary, police, and governorate directorates. They comprise also the economic public entities that include for example oil-related companies, textile industry, and food establishments. Security agencies try to control and influence these entities, especially those ones that have political or financial significance. They also suffer from widespread corruption and inefficiency.<sup>7</sup> Yet, these institutions provide job opportunities to an important percentage of workers. In 2010, about 20% of the labour force in Syria was employed in the public sector; this percentage has increased to around 50% during the conflict years (CBS, 2019). Public entities have provided the minimum level of basic goods and services such as bread, water and electricity to people during the conflict. In this paper we distinguish between government entities that are targeted or not targeted by sanctions.

In 2010, Syria's public budget shows that about 20% of the government's revenue was from oil-related activities, including the profit tax on the Syrian Petroleum Company. In this year, Syria's total exports reached about USD 11.4 billion, about 46% of which was oil-related, a decrease from its peak in 2008 of around USD 14 billion (CBS, 2019). Almost 30% of the revenue was non-oil tax revenues, whereas the non-tax and non-oil revenues that are mainly the surplus of public enterprises formed 32% of the 2010 public budget in Syria (CBoS, 2010). These public enterprises included what used to be Build Operate Transfer (BOT) telecommunication companies (Syriatel and MTN).<sup>8</sup>

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<sup>6</sup> One example is the death of Rustom Ghazaleh, former head of the political security directorate, after a violent dispute with Rafiq Shahadeh who was the head of military intelligence directorate at that time in 2015. Many reasons caused this dispute, among which was the control over fuel smuggling routes in south Syria (See Ali. Adnan (2015): "Rutom Ghazaleh: the end of the dirty missions man" in Arabic, Al-Araby Al-Jadeed. Available at: <https://bit.ly/3poo8gF>

<sup>7</sup> Based on Worldwide Governance Indicators (WGI) issued by the World Bank in 2019 Syria's rank was 206 out of 209 countries in (Control of Corruption) indicator and its rank was 202 out of 209 countries in terms of (Government Effectiveness) indicator. Available at <https://info.worldbank.org/governance/wgi/>

<sup>8</sup> Before 2015, the only two mobile service providers (Syriatel and MTN) used to work under BOT (Build, Operate, Transfer) arrangements. Yet, since the beginning of 2015, the Syrian government awarded licenses for these two companies to operate as private establishments for 20 years.

3. **The energy sector:** The Government of Syria (GoS) fully controlled the energy sector before the conflict. There were many foreign companies that invested in the oil sector in the country, but with close monitoring and cooperation of the government entities. There was a role for private sector either by being a part of joint-sector oil-related companies or by providing operational support to the oil and gas industry through private companies. During the conflict, all western oil companies withdrew from the Syrian market as the oil and gas sector were targeted by sanctions. Since then, Iranian and Russian companies have played an increasing role in this sector. Private companies, mainly belonging to cronies and warlords, became more vital for the sustainability of energy generation in the country.

Oil represented an important source of funds for GoS before the conflict. Syria used to produce about 380,000 barrels/day. In 2010, about 30% of public budget revenues were oil-related revenues (CBoS, 2010). Syria's total exports of oil in 2010 reached 5.24 billion USD forming 46% of total country exports. Almost 80% of the exported oil was to EU state members. Italy was the biggest importer of Syrian oil with an estimated amount of USD 1.34 billion, followed by Germany which imported oil from Syria at a cost of about USD 1.30 billion (CBS, 2011b).

4. **The banking sector:** Up until early 2004, the banking sector was limited to six public banks. The Central Bank of Syria was responsible of the country's monetary and banking policy. The Central Bank is supposed to be independent by law. The regulations changed in 2004 and private banks were allowed in the country. By 2010, fourteen private banks entered the market in Syria, three of which are Islamic. Sanctions imposed on all financial transactions with Syria puts pressure on public and private banks. Sanctions have also led to flourishing parallel financial system including black market currency exchange offices and Hawala offices. Syrian cronies and their international partners dominate and benefit from the majority of this parallel system. Some private banks maintained their presence inside Syria despite the losses, many hoping that they will make it up by being there ready to function when the reconstruction phase begins (Al Mashhour. O, Abd Aziz. A, & N, 2020).
5. **Cronies and their businesses:** Cronies include business elites with strong ties to regime-based networks. It is similar to the term 'political entrepreneur' used in political marketplace analysis but the focus is on businessmen rather than politicians.<sup>9</sup> We group these actors in two main categories; the first one is the traditional crony capitalists that used to dominate main economic activities in Syria before the conflict, such as Makhlof family, the cousins of the Assad family, and Mohammad Hamsho who is known as the shadow of Maher Al-Assad, allegedly Syria's second most powerful man after his brother Bashar. Before the conflict, this group used to control and monopolize key economic activities including telecommunication, the banking sector, the major real estate projects, oil and gas sector, and metal industries (Cornish, 2019). After 2011, many cronies left the country. Those who stayed have invested in new conflict-related business opportunities. They coordinate with national and international criminal networks to conduct illicit activities such as smuggling, supporting pro-regime militias and armed groups. One example is the Jaber brothers who established the pro-regime Desert Hawks militia, involved in criminal activities, and had business with Russian companies (Solomon, 2020). They also controlled the trade of scrap metal

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<sup>9</sup> See for example 'The Political Marketplace: Analyzing Political Entrepreneurs and Political Bargaining with a Business Lens', Alex De Waal, 1 Feb 2018. Available at: <https://blogs.lse.ac.uk/africaatlse/2018/02/01/publicauthority-the-political-marketplace-analyzing-political-entrepreneurs-and-political-bargaining-with-a-business-lens/>

ripped from the debris of cities and towns destroyed by the war. The second group of cronies consists of the newly emerged businessmen and warlords during the conflict such as Samer Al-Foz and the Katerji family (Cornish, 2019). This group made most of their money during the conflict in close cooperation with criminal networks. They are involved mainly in violence-related activities such as rent-seeking and royalties paid on checkpoints, illegal fuel and oil trade, foreign currency speculation, and controlling smuggling routes. Recently, these cronies and warlords have established companies related to the regime-led reconstruction process. These companies are part of a money laundering exercise. For instance, Mudalal Khouri, who is a Syrian-Russian banker and fixer, has managed a money-laundering network that includes companies in different countries (Global Witness, 2020). There are many signs of competition between and within the cronies. Many key figures are also affiliated either to Iran or Russia and some with both. Both traditional and newly emerged cronies have a partnership with key military and security personnel. Many become members of parliament and also control many of the GoS policies through their financial influence and their military/security partners (Al-Masri, 2020).

6. **The independent Syrian business sector:** includes mainly micro, small, and medium enterprises in Syria forming the majority of the country's private sector, as well as some large companies that are owned by traditional business families in Syria. Although these companies are not directly related to regime figures, cronies and warlords, owners still have to pay a percentage of profits to a key governmental or security figure to protect their businesses and to be able to conduct what should be a legal activity. For example, many small workshops in Aleppo have to pay royalties to the Military Intelligence Directorate; also medium enterprises have to pay a percentage of their profits to influential persons to keep their works running (Zakaria, 2020). This sector has been affected by the sanctions imposed on the financial and energy sector and all the measures that make it difficult to deal with European and American companies, including obtaining a production license. The sanctions forced them to use the black markets, and thus, to be exploited by the cronies.<sup>10</sup> This includes the independent pharmaceutical industry, which was developing rapidly before the conflict and which particularly suffered, indirectly, from the sanctions (Ghisn, 2020).
7. **The NGO and civil society sector:** We include in this category different types of actor. Among these types are: the faith-based development organizations, most of which are working under the ecclesiastical umbrella of various Syrian Churches and other religious establishments; the regime-affiliated organizations that usually are managed directly by relatives of key security/military figures or by cronies; the traditional charities that mainly aim to mitigate poverty and provide cash assistance and in-kind support to deprived families; the local development organizations that function under the regime's supervision and work on different livelihood activities such as soft skills' training; and finally the more independent smaller organisations and grassroots initiatives, most of them work at a small scale and often without a license. Their activities are limited and mainly related to environmental issues, health, humanitarian support and education. The resources of the last category are particularly limited as they are not allowed to receive foreign funds and they often rely on volunteer work and local donations (Bosman, 2012).

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<sup>10</sup> See for example Samaha, Nour (2016): "The Black Market Kings of Damascus", The Atlantic. Available at: <https://www.theatlantic.com/international/archive/2016/10/syria-war-economy-damascus-assad/502304/>

8. **International business entities:** Before the conflict this sector included western and Arab actors, but after the conflict it became dominated mainly by Russians, Iranians, Lebanese, and Iraqi entities. They were targeted by sanctions as they supposedly breached the financial and energy bans imposed on Syria. These entities and some of their illegal international networks developed a partnership with cronies in Syria. They both make a huge profit at the expense of Syrian people benefiting from the conditions created by sanctions. For example, the Panama Papers revealed that Pangates International Corporation Ltd based in the United Arab Emirates created a shadow company in the Seychelles to circumvent sanctions on the Syrian regime. Pangates itself belongs to the Damascus-based Abdulkarim group which has a strong relation with the Syrian government and worked with a Russian oil and gas firm (Middle East Eye, 2016).

Before the conflict, the impact of these business entities and networks was minimal. Syria had strong formal trade relations with EU member states. A study that used a gravity model to estimate the impact of EU, Arab countries, and Turkey sanctions on trade in Syria shows that in 2012 sanctions would reduce potential Syrian exports by 42.9%, assuming all other factors remain unchanged (Mehchy, Nasser, & Schiffbauer, 2015).

Prior to the conflict, the main destinations of Syria's exports were the Arab countries that imported 40.1% of total Syria's exports, and EU countries imported 37.4%. The EU countries imported 37% of the total Syrian exports in 2010; about 90% of these EU imports were oil (Mehchy et al., 2015). By comparison, trade with Russia and Iran as percentages of Syria's total trade were estimated at only 6% and 1%, respectively (CBS, 2011a).

9. **Ordinary people and households:** The intractable conflict in Syria has had a drastic impact on the majority of Syrian people. Sources of household income fell dramatically.<sup>11</sup> Almost 3 million people lost their jobs (SCPR, 2015). Remittances become one of the main sources of income for families. The World Bank estimates show that the value of remittances to Syria reached USD 1.62 Billion in 2019 (World Bank, 2019). By 2020, the price of goods and services had increased almost 17 times compared to 2010 levels. But salaries in the public sector, which forms around 50% of current employment in Syria, have only increased by 2.7 times during the same period (Rim Turkmani & Mehchy, 2020). Over 90% of the population in Syria are already below the poverty line since the end of 2017 (SCPR, 2019). The general CPI has increased about 215% since then, so even more people are now living below the poverty line and the intensity of poverty (the poverty gap) surged (Rim Turkmani & Mehchy, 2020).

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<sup>11</sup> Sources of income include in addition to wages and salaries, interest income, rental income, capital gains, grants, government and family support, and transfers.



### 5 Changes during Phase I (April 2011 – August 2011)

During this phase substantial political changes were unfolding rapidly all across the region, with public movements in Egypt and Tunisia, and the NATO intervention in Libya against Gaddafi leading to the demise of a strong ally of the Syrian president.

Only the EU and the USA imposed sanctions at this stage. Turkey and the Arab countries were still negotiating with the regime in Syria during this phase to implement substantial reform in the country.

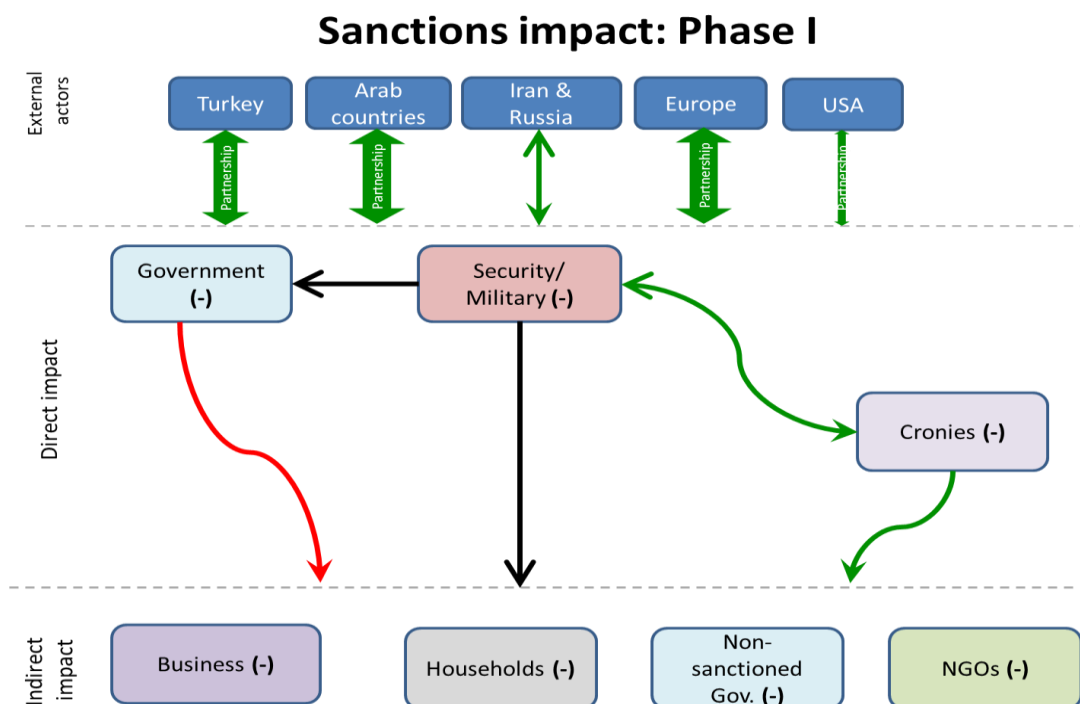


Figure 3 The impact of sanctions during the first phase

The figure shows that sanctions during Phase I targeted directly a few individuals and entities in three groups of actors, namely Cronies, Security/Military, and Government. The analysis indicates that the impact on these actors was negative but relatively low (-).<sup>12</sup> Our findings show also how many groups of actors in Syria were affected indirectly by sanctions. These groups include Business, Households, Non-sanctioned government entities, and NGOs. The analysis indicates that the indirect impact on them was negative but relatively low (-). The Figure illustrates the types of relations between the directly affected actors; where Cronies had mutual interest-based relations with Security/Military actors, which had coercive-based relation with the government entities. It also shows the types of relations between the directly and indirectly affected groups of actors; where Cronies had one-way interest-based relations with the indirectly affected groups, Security/Military had coercive-based relations, and Government had law-based relations with them. Relations with external actors used trade partnership as a proxy. During the first few months of the conflict, our analysis shows minor changes in these relations.

<sup>12</sup> Each actor in the figure has a sign showing the impact of sanctions on this actor. We have six different levels of impact: limited negative (-), average negative (-), high negative (---), limited positive (+), average positive (++), high positive (+++). The impact level is identified based on ad hoc estimations of several proxy indicators related to each actor. For instance, the impact on security/military actor takes into account the increasing/decreasing number of defected personnel, number of detainees, and interventions in private/public entities decisions.

## 5.1 The sanctions

The declared aim of the sanctions imposed during this four-month phase was to change the regime's behaviour. It started with the first set of sanctions enacted on Syria as a reaction to the violence and brutality used by the regime against the civil movement that erupted in mid-March 2011.

The first set of sanctions was imposed by the USA on 29 April 2011, targeting top-ranked officers by freezing their assets and imposing travel bans on them.<sup>13</sup> On 9 May 2011, the EU took its first steps. These included suspending the bilateral cooperation programmes between the EU and the Syrian government under the European Neighbourhood Policy, freezing the draft EU-Syrian Association Agreement, suspending the participation of Syrian authorities in the EU's regional programmes, and the loan operations and technical assistance by the European Investment Bank to Syria and imposing a list of sanctions, later expanded.<sup>14</sup>

During this phase, the EU and USA imposed a full arms embargo on Syria in addition to sanctions (assets freeze and travel bans) on a few military officers including the Minister of Defence and Maher Al-Assad, the president's brother, who was Major General of the 42<sup>nd</sup> brigade at that time. The Military Housing Establishment was also targeted by EU sanctions by as a supplier of raw materials used in the primitive military industry in Syria. In terms of security entities, the Air-Force Intelligence Agency and the Political Security Directorate were targeted by US sanctions only,<sup>15</sup> as EU sanctions were focusing merely on security officers at the time.<sup>16</sup>

The targeted government officers were only top ranked officials, including the Syrian president who was added to the list by the EU after two weeks of imposing sanctions on military and security actors.<sup>17</sup> This may indicate that western countries were trying to give an opportunity to the head of the regime to conduct the required reform. The government officers targeted by sanctions included a few key figures in the government, like the vice president and the minister of foreign affairs.<sup>18</sup>

The crony capitalists/elite business entities that were targeted by sanctions included only a few names and their related business entities. The EU list included Rami Makhlof, the president's cousin, who was considered as a key figure of corruption by the majority of Syrian people. The USA already targeted Makhlof by sanctions in 2008,<sup>19</sup> but it added Mohammad Hamsho this time to the list.

Several Iranian security/military officers and entities were targeted by sanctions due to their direct involvement in oppressing the demonstrations in Syria. In this phase, EU targeted, through sanctions, the Quds Force, which is a specialist arm of the Iranian Islamic Revolutionary Guard Corps (IRGC).<sup>20</sup>

<sup>13</sup> Federal Register (2011): "Executive Order 13572 of April 29, 2011", Vol.76, No. 85. Available at: <https://home.treasury.gov/system/files/126/13572.pdf>

<sup>14</sup> Official Journal of the European Union (2011): "Council decision concerning restrictive measures against Syria", L 121/11. Available at: <https://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2011:121:0011:0014:EN:PDF>

<sup>15</sup> Federal Register (2011): "Executive Order 13572 of April 29, 2011", Vol.76, No. 85. Available at: <https://home.treasury.gov/system/files/126/13572.pdf>

<sup>16</sup> Official Journal of the European Union (2011): "Council decision concerning restrictive measures against Syria", L 121/11. Available at: <https://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2011:121:0011:0014:EN:PDF>

<sup>17</sup> Official Journal of the European Union (2011): "Council Implementing Regulation EU 504/2011 of 23 May 2011". Available at: [https://www.reportingproject.net/troubleswithbigtobacco/documents/OCCRP\\_tobacco\\_3.pdf](https://www.reportingproject.net/troubleswithbigtobacco/documents/OCCRP_tobacco_3.pdf)

<sup>18</sup> Ibid

<sup>19</sup> U.S. Department of the Treasury - Press Center (2008): "Rami Makhlof Designated for Benefiting from Syrian Corruption", HP-834. Available at: <https://www.treasury.gov/press-center/press-releases/pages/hp834.aspx>

<sup>20</sup> Official Journal of the European Union (2011): "Council Implementing Regulation EU 843/2011 of 23 August 2011". Available at: <https://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2011:218:0001:0003:EN:PDF>

The USA included Iranian security officers such as Mohsen Sherazi from the Quds Force on the list (Tehran Bureau, 2011). These sanctions were a clear message to express the West's annoyance with the Iranian support to the Syrian regime.

## 5.2 Impact on actors and their relations

Figure 3 illustrates and summarises the impact of sanctions during Phase I, including three groups of actors: directly affected actors, indirectly affected actors, and external actors. The figure also simplifies the relations between and within the three different actors' groups. This simplification aims to draw a general picture of changes in actors' networks and resources under sanctions.

The main directly affected actors during this phase are security and military entities and individuals in addition to government actors and Iranian security and military officers and entities.

But the negative impact on these actors was relatively limited for two main reasons. First, nearly all of these actors do not have assets and bank accounts in Europe and the USA. Western sanctions have been imposed on the regime since 1979, so it has a cumulative experience of how to overcome and evade these sanctions, and strictly limit financial relations between the core elite and western entities. Second, the Syrian military actors rely predominantly on Russia for weapons supply. This made the EU and US arms embargo ineffectual. The EU sanctions on the Military Housing Establishment, whose activities extend well beyond housing, could have had an impact on the supply of some of the raw materials used in its military industry. However, these materials would have been replaced by similar materials from China and other non-sanctioning countries.

It is worth noting that Syria's complete dependence on weapons supply, and even on economic support, from the Soviet Union and the Eastern European countries goes back to the early 1950s. At the time US, France and Britain led the efforts to blockade the newly independent state of Syria, particularly on arms sales because of its position against Israel. Syrian leaders resorted to the Soviet Union for arms sales and loans. Ever since, the Soviet Union, and subsequently Russia, became the main external supporter of the Syrian military forces providing them not only with arms but also with training and loans (Khlebnikov, 2020; Lund, 2019).

From a logistical perspective, there was more than a month between the beginning of demonstrations and the first round of sanctions, which were expected by many. This might have given key figures in the Syrian regime the time they needed for using their financial channels to quickly reallocate their investments and avoid the impact of sanctions.

The resilience of the regime's core institutions against sanctions goes back to the way Hafez Al-Assad designed the system, including the complicated network of core military and security elites. They compete with each other on how loyal they are to the head of the regime; at the same time, they support each other when there are external threats, like sanctions, because they know that they are in the same boat (Tallaa, 2016).

Crony capitalists and their business entities were also directly affected as the sanctions affected their external financial resources and international assets and investments. In response, many of them reallocated a large part of their assets and investments to countries such as Russia and the UAE and opened bank accounts in safe havens either directly under their names or under the names of proxies. As the Panama Papers revealed in 2016, many of the Syrians targeted by sanctions and their affiliated bodies had offshore accounts including the president's cousin Rami Makhlof who was able to keep

his HSBC bank accounts open months after EU sanctions took effect.<sup>21</sup> It is worth noting that while cronies are important to the Syrian regime, they are not irreplaceable. As far as the regime is concerned what matters is their function in supporting the regime's sustainability and not their personal relations to the president.

The sanctions imposed on very few figures in the government contributed along with other factors to increasing uncertainty among public employees. Some governmental entities witnessed a dropout of public workers, particularly in conflict zones like Daraa.

The indirectly affected actors included the more independent business entities, particularly SMEs and traditional business, who were hit by the increasing level of uncertainty. In response, many of them took some precautionary measures such as cutting down on their activities, collecting money owed to them from the market. At the same time, traders increased their imports to increase their stock as a precautionary response to the crisis (SCPR, 2014a).

Many of the larger independent businesses feared further deterioration of the economy, especially as many of them read the sanctions as a first step towards much more rigid measures aimed at toppling the regime. Accordingly, they began to sell their assets inside the country, exchange their savings and cash into hard currencies, and transfer these out of the country, leading to significant capital flight (Abboud, 2017). Abboud argues that the capital flight out of Syria had a significant impact on the business community and elite stratification in Syria.

First, many Syrian businesspeople have foregone their relationships with the regime and have thus sacrificed their proximity to political power. Second, the embedding of Syrian capital outside of the country reduces its mobility, and the ability of Syrian businesspeople to repatriate assets and capital and to participate in the reconstruction of the country. Finally, the productivity of Syrian capital is increasingly untethered from the Syrian market, leaving a productive gap that the remaining business community is unable to fill during the conflict.

At the same time, the core elite began to create new loyal cronies (warlords in later phases) to replace those who left the country. For instance, many para-military personnel and small businesspersons, who participated in suppressing civil demonstrations during this phase, have become cronies/warlords, benefiting from the regime's protection and partnership (Cornish, 2019).

Non-governmental organizations were also indirectly affected. Those which relied on external EU funding had their funding cut, and those who relied on local support also saw a drop in their funding. In response, they cut down on their activities, despite the rise in needs among local communities (Bosman, 2012).

The sanctions had also a secondary impact on ordinary citizens and households by contributing to the increase in the level of uncertainty. Many households perceived sanctions in the first few months as an indicator of a crisis escalation in the near future. Thus, they reduced consumption and started exchanging their Syrian pounds for hard currencies, fearing an increase in the exchange rate.

As illustrated in Figure 3, the sanctions during Phase I did not directly affect the partnership between external countries and Syria. This partnership with Iran and Russia became increasingly interest-

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<sup>21</sup> See for example "Mossack Fonseca serviced Assad cousin's firms despite Syria corruption fears", the Guardian, 5 April 2016. <http://www.theguardian.com/news/2016/apr/05/mossack-fonseca-panama-papers-rami-makhlouf-syria-assad-hsbc>

based, which helps to explain how sanctions have had a limited impact on all directly or indirectly affected internal actors including households.

#### **5.4 Impact on bargaining power**

In the first few months after the beginning of public protests there were signs that there was a division within the regime into two main camps. The main disagreement was about the best approach to address these movements. The first camp favoured a softer approach and argued that there was a well overdue need for reform and that real and meaningful changes to the way the country is governed needed to take place. The leading voice in this camp was the Syrian vice-president, Farouk Al-Sharaa (Moubayed, 2012). Ironically, he was not only subsequently sidelined by the regime but also targeted by EU and US sanctions. This may have undermined the position of other pro-reform officials who came to perceive sanctions as arbitrary measures.

The second camp included core members of the regime who perceived the public movement as a growing existential threat, and argued for the full use of force and other coercive measures against protesters. They took the position that any reforms and concessions from the regime side would be perceived as weakness and could be the beginning of the end. They were willing to accept the painful but bearable impact of sanctions in return for remaining in power. They were the camp who won the argument within the regime's circles. The regime showed no sign that it was willing to change its security approach in dealing with the protests. On the contrary, its use of violence increased, and more civilians were killed or arrested.

The speech of the Syrian president on the 20<sup>th</sup> of June was the official declaration of this position. In response to all the messages from leaders in Europe and the USA calling for reform, he stressed that the reform process was strictly an internal issue, and that Syria was prepared for long-term hardship. As he put it: "even if this crisis continues for months and years, we should be able to cope with it and to contain it".<sup>22</sup>

The gap left by European funding was quickly filled by Syria's allies, particularly Iran and Russia, who became the regime's most trusted economic partners, in addition to strong existing political and military relations.

The stubbornness of the regime brought to a quick end the approach of using sanctions to leverage reform, and the beginning of a new phase of sanctions.

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<sup>22</sup> Bashar Al-Assad Speech at Damascus University on 20 June 2011 (In Arabic). Available at: <https://www.voltairenet.org/article173298.html>

## 6 Changes during Phase II (August 2011 – May 2014)

Until mid-August 2011, EU official statements mainly urged President Assad to end the violence and to listen to the international community without pushing for regime change. But following large-scale military operations by the regime against several Syrian cities, the EU response to the Syrian conflict took a major turn when in August 2011 and, in an orchestrated move with the USA, the UK, France and Germany, the EU asked President Assad to step aside.

In its 18<sup>th</sup> of August 2011 statement,<sup>23</sup> the EU justified the demand for a foreign head of state to step down in terms of the loss of his national legitimacy: “The EU notes the complete loss of Bashar al-Assad’s legitimacy in the eyes of the Syrian people and the necessity for him to step aside”. This marked the beginning of a new phase in which sanctions became a tool aimed at achieving regime change, and in which reversing all the measures became conditional on the president stepping aside: “As soon as President Assad steps aside and a genuine democratic transition begins, the EU is ready to develop a new and ambitious partnership with Syria across all areas of mutual interest, including mobilizing assistance, and strengthening trade and economic links.”<sup>24</sup>

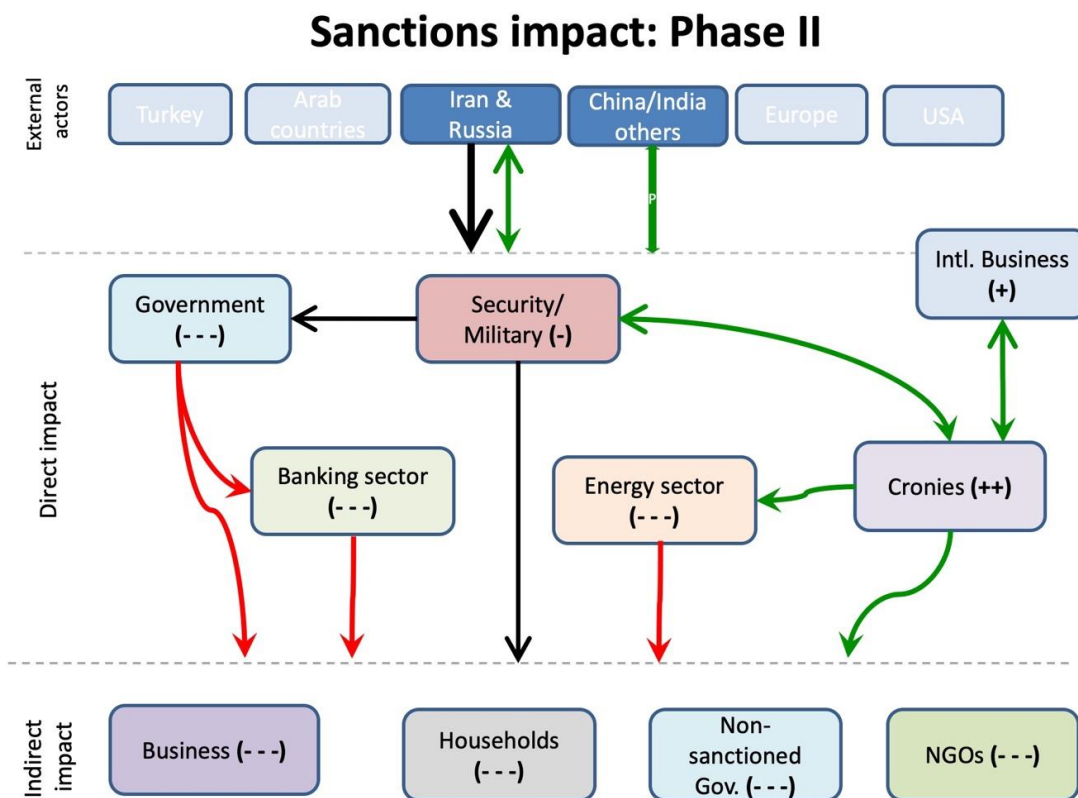


Figure 4 The impact of sanctions during the second phase

The figure shows that sanctions during Phase II targeted a larger number of individuals and entities in the same three groups of actors affected directly in Phase I, in addition to entities in Energy and Banking

<sup>23</sup> European Union, 2011, Press release 13488/1/11 REV 1. Available at: [http://europa.eu/rapid/press-release\\_PESC-11-282\\_en.htm](http://europa.eu/rapid/press-release_PESC-11-282_en.htm)

<sup>24</sup> Council of the European Union, Council conclusion on Syria, 15 October 2012. Available at: [https://www.consilium.europa.eu/uedocs/cms\\_data/docs/pressdata/EN/foraff/132825.pdf](https://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/EN/foraff/132825.pdf)



sectors. The aforementioned analysis indicates that the impact of sanctions during this phase differed across actors. It was highly negative (---) for Banking sector, Energy sector, and Government; negative but relatively low (-) for Security/Military actors; and positive (++) for Cronies. The findings show also how all groups of indirectly affected actors suffered from a highly negative impact during this phase (- -). The Figure illustrates the types of relations between the directly affected actors; they are similar to the previous phase in addition to the one-way interest-based relation between Cronies and Energy sector, and the law-based relation between Government and Banking sector. It also shows the types of relations between the directly and indirectly affected groups of actors; they are similar to Phase I in addition to the law-based relation between Energy and Banking sectors on one side and the indirectly affected actors from the other side. The Figure illustrates the dramatic changes in the relations with external actors as explained in the above sections. There were almost no relations with the traditional trading partners, more dependence on Russia, Iran and to a less extent on China and India. The findings also show one-way coercion-based relations with Russia and Iran, in addition to the emergence of international business networks that benefitted from sanctions (+) and have mutual interest-based relations with Cronies.

The expectations of Western countries in this period appeared to be that such damage to the international legitimacy of the regime, combined with popular unrest, would lead to a similar scenario as in Egypt or Tunisia. Hilary Clinton commented on this move: "If Turkey says it, if King Abdullah says it, if other people say it, there is no way the Assad regime can ignore it."<sup>25</sup>

During this second phase the apparent Western strategy was to use sanctions as a part of an overall plan to change the regime. Meanwhile, the violence escalated rapidly, and the Syrian regime lost considerable parts of its territories including the Al Jazeera area in the northeast, which is the breadbasket of Syria and the main source of wheat and oil. It also lost control of some of the major border crossings, which were a key source of income.

Several de facto authorities emerged in different areas including Local Administrative Councils in opposition-controlled areas, Kurdish-led authorities and Islamic armed groups. In addition, the government lost control over considerable parts of its borders, making it more exposed to external interventions in support of the various groups fighting against the regime.

The war economy flourished and the black market expanded hugely. Criminal and violence-related local, national, and transnational networks emerged. These networks were supported by different fighting parties and were engaged in smuggling, kidnapping, human trafficking, drugs and weapons-trading, and pillage. One example is the criminal networks operating in refugee camps to facilitate human and drug trafficking (Sale, 2013).

During this period around 10 million people in Syria left their homes to become IDPs, refugees, or migrants (SCPR, 2015). Syrian society became very fragmented due to the continuation of the armed conflict and the manipulation of identity politics by all fighting parties.

Syria witnessed a proliferation of military actors (pro and against the regime) such as the Popular Forces and National Defence Forces that were founded in 2012 with support from Iran. These forces

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<sup>25</sup> The Washington Post (2011): "Obama: Syrian president Assad must step down". Available at: <http://wapo.st/1IXszal>

became very powerful as they began to form their own networks of smaller armed groups. This has made it more challenging for the international community to accurately monitor and identify specific entities and individuals that are engaged in the regime's brutality.

We identify six events that capture the actual and potential behaviour of both the western states and the affected actors. These events are:

- a) The introduction of the new constitution by the regime in February 2012, which showed that the regime continued to act as if it were the sole legitimate and functional authority.<sup>26</sup>
- b) The convening of the Geneva I Conference on Syria (the action group conference) in June 2012 that internationalized the political solution of the Syrian conflict.<sup>27</sup> In this round, the USA declared again that the Syrian president cannot remain in power.
- c) The bombing of the National Security Headquarters in Damascus in July 2012 in which many top military and security officials were killed (four of them were among those targeted by sanctions).<sup>28</sup>
- d) The regime recapture of the strategically located city of Qusair near the Syrian-Lebanese border in June 2013 with help from Hezbollah, which demonstrated that it was a key actor in the Syrian conflict.<sup>29</sup> The event also demonstrated the regime's capability to take back military control of strategic areas, but only with substantial support from its allies. Demonstrating this capability was essential for Damascus to challenge the western strategy of changing the regime during this phase.
- e) The USA threatened to execute a military operation against the regime in August 2013 following a chemical weapon attack on Ghouta (Sinjab, 2013). This event widened the spectrum of potential measures that western countries were willing to take against the Syrian regime.
- f) In May 2014, the Syrian regime recaptured the old city of Homs. This event was a symbolic defeat for the armed opposition because this area was considered as one of the opposition's strongholds in Syria.<sup>30</sup>

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<sup>26</sup> The New York Time (2012): "Syrians Said to Approve Charter as Battles Go On". Available at: <https://www.nytimes.com/2012/02/28/world/middleeast/syrian-violence-continues-as-west-dismisses-new-charter.html>

<sup>27</sup> UN Peacemaker (2012): Final Communique of the Action Group for Syria (Geneva Communique). Available at: <https://peacemaker.un.org/node/1581>

<sup>28</sup> BBC News (2012): "Syria Crisis: Profiles of security and defence chiefs killed in Damascus blast". Available at: <https://www.bbc.co.uk/news/world-middle-east-18889030>

<sup>29</sup> The Guardian (2013): "Syrian town of Qusair falls to Hezbollah in breakthrough for Assad". Available at: <https://www.theguardian.com/world/2013/jun/05/syria-army-seizes-qusair>

<sup>30</sup> The Guardian (2014): "Syrian rebels to abandon Homs district as part of ceasefire deal". Available at: <https://www.theguardian.com/world/2014/may/02/syrian-rebels-homs-ceasefire-deal>

## 6.1 The sanctions

The first set of sanctions imposed during this phase were the US sanctions on the Syrian oil and gas sector on the 18th of August 2011.<sup>31</sup> In September, the EU also imposed a ban on trade, finance, and investment on the Syrian oil and gas sector.<sup>32</sup> Later on, the EU froze the assets of the Central Bank of Syria,<sup>33</sup> and banned all relations with Syrian public and private banks.<sup>34</sup> Western countries also began to target business and financial sectors aiming directly at the economic foundations of the regime and the state.

Turkey also joined the sanctions. It imposed trade and financial sanctions on Syria in November 2011 and suspended all agreements with the Syrian government.<sup>35</sup> During the same month, the Arab League agreed to freeze the Syrian government assets in all Arab countries, cease trade between Arab governments and Syrian public entities, and end all financial transactions with the Syrian Central Bank.<sup>36</sup>

The sanctions which were imposed on the Syrian energy sector banned any trade and investment in oil or gas products in Syria. The ban included state-owned companies such as the General Petroleum Corporation and joint venture companies (between public and private sector) like the Ebla Petroleum Company. Many non-oil state-owned and public entities were also banned by the middle of 2012 including the General Organization of Radio and TV.<sup>37</sup> Some of these entities were directly supporting the regime's military activities, such as the Syrian Centre for Studies and Research.

Other State-owned entities (SOEs) were also targeted by sanctions despite the lack of any clear or direct relation to the regime's violent activities. The Cotton Marketing Organization and Syrian Arab Airlines were banned by the EU in July 2012.<sup>38</sup>

The sanctions also expanded to include ministers of civil administration such as ministers of education, water resources, and electricity. Former ministers were also banned based on broad accusations (sharing responsibility for the regime's violent repression against the civilian population).<sup>39</sup> The sanctions on security and military actors were also expanded at both institutional and individual levels.

Sanctions were also imposed on private companies. These companies included pro-regime media such as Addounia TV and Al Watan newspaper. Telecommunication, construction, and trading

<sup>31</sup> Federal Register (2011): "Executive Order 13582 of August 17, 2011", Vol.76, No. 162. Available at:

[https://home.treasury.gov/system/files/126/syria\\_eo\\_08182011.pdf](https://home.treasury.gov/system/files/126/syria_eo_08182011.pdf)

<sup>32</sup> BBC News (2011): "EU steps up Syria sanctions with ban on oil imports". Available at:

<https://www.bbc.co.uk/news/world-middle-east-14759416>

<sup>33</sup> The Independent (2012): "EU to freeze assets of Syrian central bank". Available at:

<https://www.independent.co.uk/news/world/europe/eu-freeze-assets-syrian-central-bank-7440484.html>

<sup>34</sup> European Council Regulation No 36/2012 of 18 January 2012. Available at: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex%3A32012R0036>

<sup>35</sup> The Guardian (2011): "Turkey imposes sanctions on Syria". Available at:

<https://www.theguardian.com/world/2011/nov/30/turkey-imposes-sanctions-on-syria>

<sup>36</sup> BBC News (2011): "Syria unrest: Arab league adopts sanctions in Cairo". Available at:

<https://www.bbc.co.uk/news/world-middle-east-15901360>

<sup>37</sup> European Council Decision 2013/255/CFSP of 31 May 2013. Available at:

<https://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2013:147:0014:0045:EN:PDF>

<sup>38</sup> Council Implementing Regulation (EU): No 673/2012 of 23 July 2012. Available at:

<https://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2012:196:0008:0011:EN:PDF>

<sup>39</sup> European Council Decision 2013/255/CFSP of 31 May 2013. Available at:

<https://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2013:147:0014:0045:EN:PDF>

companies owned by crony capitalists (Rami Makhlouf in particular) were also banned.<sup>40</sup> These companies employed thousands of Syrians with high working skills who were not necessarily pro-regime but were attracted by the better salaries than those offered in the public sector.

Sanctions also included foreign banks like the Syrian Lebanese Commercial bank in Lebanon that is considered a branch of the state-owned Commercial Bank of Syria.<sup>41</sup> The USA also added Russian entities to the list of targeted actors. These entities were accused of facilitating and financing regime violence.<sup>42</sup>

The sanctions were intended to target the economic foundations of the regime. They paralyzed the formal economy, including trading and the finance and banking sectors. These sanctions were supplemented by financial, military and political support to opposition entities and by statements assigning legitimacy to the formal opposition. They served as a part of a strategy to increase the pressure on the regime, which some states hoped that it could lead to regime change.

## 6.2 Impact on actors and their relations

The actors directly affected by sanctions included the same set of actors in the previous phase in addition to the banking sector (public, private, and Central Bank), government entities (ministries and SOEs mainly those related to oil production), pro-regime non-state entities (media, NGOs), pro-regime activists, Lebanese and Iranian individuals and entities. Additionally, and for the first time, the USA imposed sanctions on the Russian bank Tempbank.<sup>43</sup>

The indirectly affected actors included opposition entities (political and military), foreign business actors (companies and businesspeople), criminal and violence-related networks working in coordination with cronies and warlords, NGOs, INGOs, and UN agencies in addition to the business entities and citizens mentioned in the previous phase.

The sanctions on the banking sector hindered the regime's ability to conduct international transactions including trading activities, money transfers, and open credit lines. The financial entities targeted by sanctions were the main financial channels between businesspeople inside Syria and external markets. Thus, they had a massive negative impact on all private sectors, including the cronies and independent business.

Before the conflict, these financial entities suffered from the lack of clear and transparent regulations in addition to their poor role in designing and implementing development policies. The main objective of the Central Bank of Syria was to stabilize the market prices of goods and services and exchange rates rather than playing an effective role in boosting inclusive economic growth in the country. During the conflict, the Central Bank implemented several damaging monetary policies. For instance, it adopted a policy of selling hard currencies to local foreign exchange companies. This policy depleted Syria's foreign currency reserves by **about \$1.2 billion** without any positive impact on the value of the Syrian Pound (Mehchy, 2019).

<sup>40</sup> Ibid

<sup>41</sup> U.S. Department of the Treasury - Press Center (2011): "Treasury sanctions State-Owned Syrian financial institutions and Syria's largest mobile phone operator". Available at: <https://www.treasury.gov/press-center/press-releases/Pages/tg1273.aspx>

<sup>42</sup> The Wall Street Journal (2014): "U.S. Sanctions Russian Bank Over Syria Conflict". Available at: <https://www.wsj.com/articles/u-s-sanctions-russian-bank-over-syria-conflict-1399567767>

<sup>43</sup> Ibid

The restrictive measures that targeted the financial sector in Syria had an enormous impact on the regime, but also on the majority of Syrians. They indiscriminately targeted all Syrian citizens, including the private sector comprised of small and medium enterprises. This contributed to:

- a) A huge drop in private sector import and export of all types of goods, including some vital products such as medicine and medical equipment. While medical goods are not restricted by sanctions on Syria, banking sanctions and asset freezes have made it difficult for medical foreign companies to do business with the regime. This greatly increased the cost of such goods so that many of them are now being smuggled from Lebanon (Ghisn, 2020).
- b) An increase in the cost of transfer of any small amount of money to Syria, which has largely affected many households that depend on monthly remittances that are regularly sent by relatives abroad (Dean, 2015).
- c) Capital flight accelerated since many businesspeople re-established their economic activities outside Syria. Some of the capital and businesses moved to countries in the region, mainly Turkey, UAE, Egypt and Lebanon. Banking restrictions on Syrians in Lebanon, however, became a major obstacle for Syrians to deposit capital in Lebanese banks or to start new businesses. The absence of such restrictions in Turkey resulted in an increased deposit of Syrian capital at Turkish banks and the relocation or creation of a new Syrian business in Turkey. In 2014 more than 26 percent of all new foreign companies in Turkey were established by Syrian investors (The Syria Report, 2015).
- d) Establishing networks of warlords and cronies that exploited and benefited from the black-market opportunities (goods smuggling, informal financial transactions etc.), which increased partially as a result of the sanctions (Sale, 2013).
- e) The drying-up of all foreign currency resources, which put a lot of devaluation pressure on the Syrian Pound and contributed to a surge in inflation. Data by the Central Bureau of Statistics show that prices increased about 4 times by the mid of 2014 compared to its level in 2010 (CBS, 2010-2014).
- f) An estimated drop in oil production by 45% by the end of 2013 caused by sanctions on the energy sector and the constraints imposed on trading (SCPR, 2014a). This was further exacerbated by the destruction of energy sector infrastructure. During this phase, oil production dropped to less than 15000 barrels per day (ESCWA, 2016). These estimates do not include the production of oil wells beyond the regime's control. But at the same time sanctions have also contributed to:
  - o The emergence of illicit and criminal networks to smuggle oil to regime-controlled areas. These networks have become very influential and have established relations with the different fighting parties in Syria.
  - o Increasing dependence on Iran to provide the regime with its needs from oil
- g) A fall in public revenues (caused partly by the sanctions on energy sector). The regime prioritised spending on its military and security operations. Public services were squeezed to pay for these operations. For instance, during this phase, the government of Syria reduced subsidies and thus increased the prices of main goods and services such as bread, electricity, and fuel. This has increased the economic burden on most Syrian households.

- h) Deterioration in the level of public services caused in part as a consequence of sanctions on civil administration that provide services such as electricity and water. For example, because of the sanctions these entities were unable to renew and maintain their plants and equipment properly, which reduced the quantity and quality of the produced goods and services.
- i) The unemployment rate increased to around 55% (ESCWA, 2016). This was partially due to the substantial negative impact sanctions had on the business sector. The lack of legitimate job opportunities pushed many people towards criminal and violence-related activities. It is estimated that about half of the employed persons in Syria were involved directly or indirectly in these activities by the middle of 2014 (SCPR, 2015).
- j) The loss of the country's economic sovereignty. Syria became largely dependent on external support from its allies. During this phase, Iran gave the regime a credit line of USD 3.6 billion.<sup>44</sup> This line became the main way in which the regime was able to offset the effects of sanctions and import essential goods. In addition to sanctions, the conflict dynamics and the breaking of diplomatic relations with western countries pushed the regime to depend more on Iran and Russia. Traditional and independent businesspeople on the other hand also had to rely on them because of the sanctions

Although the financial sanctions negatively affected the businesses of crony capitalists in Syria, there were reports that stated some of these cronies managed to establish businesses and to buy luxury properties in other countries like Russia (Foy & Cornish, 2019).

Figure 4 illustrates the impact of Phase II sanctions on actors inside and outside Syria. The trade and cooperation relations have ended between the Syrian government and the different external actors that used to be its main partners, including the EU and Arab League states. Instead, the regime has increased its trade relations with countries that did not take part in imposing sanctions on the regime like China and India. At the same time, Iran and Russia had an increasing influence inside Syria, benefiting from their huge military and economic support to the regime and from the vacuum created by the loss of leverage by western countries. During this phase, sanctions had a limited negative impact on security/military actors. They had a high negative impact on all other actors except cronies/warlords and their international business partners, who have benefited from the sanctions.

### 6.3 Impact on bargaining power

The strategy to change the regime in Syria, which involved extensive sanctions during the second phase, has failed. This is in part because of the absence or weakness of other elements of the strategy which led to the sanctions becoming the main tool for such change. With the exception of the very specific case of South Africa, economic sanctions also are not known to have changed a regime, particularly an authoritarian one.<sup>45</sup> From the perspective of having external leverage over the Syrian regime, the EU, the USA and other states, which imposed sanctions, spent a considerable part of their economic and political capital for very little return. On the contrary, the vacuum was quickly filled by Iran and Russia and that gave them even more decision-making power and influence over Syria in terms of controlling and imposing economic, political and security policies.

<sup>44</sup> Reuters (2013): "Iran grants Syria \$3.6 billion credit to buy oil products". Available at: <https://uk.reuters.com/article/us-syria-crisis-iran/iran-grants-syria-3-6-billion-credit-to-buy-oil-products-idUSBRE96U0XN20130731>

<sup>45</sup> The only exception is South Africa where the sanctions were supported by civil society



Internally, the political message behind stronger sanctions could have been among the indirect reasons that led to the defection of some high-ranked security/military officers, especially during 2012/13 when the regime was losing territories to various opposition forces. But this also led to the army being controlled even more by officers very loyal to the regime and more prepared to use extreme violence against civilians.

Combined with other war-related factors, the sanctions have also empowered cronies and warlords who have mutual interests (mainly personal) with security/military actors. The sanctions have contributed to the flourishing of illegal activities conducted by the cronies and warlords in coordination with criminal networks inside and outside Syria. Thus, key security/military personnel had the incentives to fuel the conflict and maintain sanctions.

The actors most hit by the sanctions during this phase were ordinary people, civil society actors and SMEs. The sanctions on banking, financial and energy sectors have impacted directly all private sector activities in addition to the availability of basic goods and services to families. The sanctions also gave the opportunity for cronies/warlords to monopolize and exploit the internal market by controlling smuggling routes. The security/military actors have used more coercive measures to reallocate resources from ordinary people to mitigate the impact of sanctions on their own interests. Consequently, civil society actors inside Syria were left with no means or capacity to peacefully challenge the regime.

### 7 Changes during Phase III (May 2014 – present)

Phase III began after US sanctions on a Russian bank (Tempbank) on the 8<sup>th</sup> of May 2014. This marked the beginning of targeting entities associated with an international actor. It also indicated that the USA aimed to increase its bargaining power vis-à-vis the regime’s allies, mainly Russia.

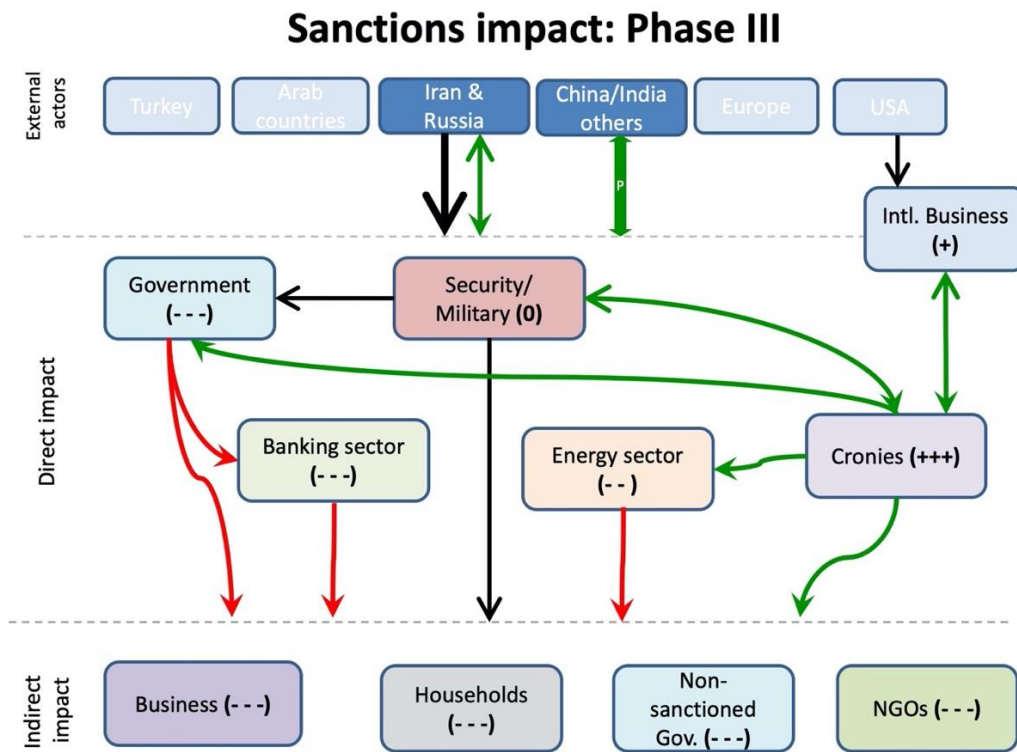


Figure 5 The impact of sanctions during the third phase

The figure reflects the main changes that took place during Phase III (on top of the impacts and relations illustrated in the previous figure). The changes explained in the above sections include: the USA’s attempt to limit the International Business networks’ activities in Syria using punitive measures, the increasing benefit to Cronies from sanctions, the development of one-way interest-based relations between Government and Cronies, and the relatively better ability of the Energy sector and Security/Military actors to cope with sanctions.

This phase has witnessed dramatic political and military changes in Syria, which have transformed the socio-economic and political environment and thereby the impact of sanctions in terms of reshaping the internal power dynamics. These events include:

- a) Bashar Al-Assad was ‘re-elected’ as the president of Syria on the 3<sup>rd</sup> of June 2014. The next day, the EU commented in an official statement on the presidential elections in Syria: “The election on 3 June cannot be considered as a genuinely democratic vote”, it called on the regime to “re-engage in genuine political negotiations that will produce conditions allowing for a real expression of the will of the Syrian people.”<sup>46</sup>

<sup>46</sup> EU Statement on the presidential elections in Syria. 4 June 2014. Available at: [http://eeas.europa.eu/statements/docs/2014/140604\\_03\\_en.pdf](http://eeas.europa.eu/statements/docs/2014/140604_03_en.pdf)

- b) The Islamic State of Iraq and Syria (ISIS) was declared on the 29<sup>th</sup> of June 2014.<sup>47</sup> The USA announced the formation of an international coalition to defeat ISIS in September 2014.<sup>48</sup>
- c) In March 2015, the city of Idlib went out of regime control and came under the control of the opposition, where Al-Nusra, which later became Hayat Tahrir al-Sham (HTS), was the dominant force.<sup>49</sup> HTS is designated as a terrorist organization by the UN.<sup>50</sup> This introduced an additional complication for those external actors who favoured backing the opposition in Syria without providing support to HTS.
- d) In September 2015, Russia declared that its military forces would provide direct support to the “legitimate and official” government in Damascus.<sup>51</sup>
- e) The Syrian Democratic Forces were established in October 2015. These forces are led by People’s Protection Units, which are mostly Kurdish armed groups. They are militarily and financially supported by the USA and the international coalition. These forces were able to capture Raqqa city in October 2017 (Mellen, 2019). This marked the end of ISIS in terms of its formal governance structure.
- f) The Security Council adopted resolution number 2254 in December 2015. The resolution calls for a ceasefire and political solution for the conflict in Syria.<sup>52</sup> All international powers involved in Syria consider this resolution as a basis for the political future of Syria.
- g) The Turkish military directly and officially intervened in Syria by conducting the Euphrates Shield operation in August 2016. Turkey claimed that this intervention aimed to confront the expansion of SDF influence, which threatened Turkish national security.<sup>53</sup> The operation was supported by different opposition armed groups.
- h) In January 2017, the first round of Astana talks was held. These talks include mainly Turkey, Iran, and Russia. All three are involved militarily in the Syrian crisis.<sup>54</sup>
- i) In April 2017, the USA launched missile strikes as a response to a suspected chemical weapons attack by the Syrian regime.<sup>55</sup> These strikes were the first direct US attack on the regime’s military targets. The USA acted unilaterally without UN or even an international coalition umbrella.

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<sup>47</sup> BBC News (2014): “Isis rebels declare ‘Islamic State’ in Iraq and Syria”. Available at: <https://www.bbc.co.uk/news/world-middle-east-28082962>

<sup>48</sup> U.S. Department of State – The Global Coalition to Defeat ISIS. Available at: <https://www.state.gov/bureaus-offices/bureaus-and-offices-reporting-directly-to-the-secretary/the-global-coalition-to-defeat-isis/>

<sup>49</sup> The Guardian (2015): “Blow for Assad as Islamist militants take strategically important city of Idlib”. Available at: <https://www.theguardian.com/world/2015/mar/28/islamists-idlib-syria-assad>

<sup>50</sup> UN Security Council resolution SC/13365 of 5 June 2018. Available at: <https://www.un.org/press/en/2018/sc13365.doc.htm>

<sup>51</sup> BBC News (2015): “Russia joins war in Syria: five key points”. Available at: <https://www.bbc.co.uk/news/world-middle-east-34416519>

<sup>52</sup> UN Security Council Resolution S/RES/2254 (2015). Available at: <http://unscr.com/en/resolutions/doc/2254>

<sup>53</sup> The Guardian (2016): “Turkey sends tanks into Syria in operation aimed at Isis and Kurds”. Available at: <https://www.theguardian.com/world/2016/aug/24/turkey-launches-major-operation-against-isis-in-key-border-town>

<sup>54</sup> BBC News (2017): “Syria conflict: war of words as peace talks open in Astana”. Available at: <https://www.bbc.co.uk/news/world-middle-east-38714441>

<sup>55</sup> BBC News (2017): “Syria war: US launches missile strikes in response to ‘chemical attack’”. Available at: <https://www.bbc.co.uk/news/world-us-canada-39523654>

j) In late September 2019, the UN announced the Terms of Reference,<sup>56</sup> and the names of those participating in the constitutional committee. This committee revived the political solution track, which goes against the regime's strategy of recapturing opposition-controlled areas by using military force and coercive measures.

### 7.1 The sanctions

The sanctions have targeted foreign banking and financial entities, mainly Russian. US sanctions are targeting not only banks but also financial companies such as the Russia Financial Corporation, which was banned in April 2018.<sup>57</sup> Other types of Russian companies are included in the US sanctions, such as Maritime Assistance LLC, that allegedly delivered jet fuel to the Russian military bases in Syria.<sup>58</sup> The EU continues its sanctions on the same actors as before, with updated names.

This phase witnessed an improvement in the cooperation between the USA and Russia, aimed at reaching a political solution for the Syrian crisis. The strategy shifted from changing the regime to forcing it to accept a political solution. This shift was clearly mentioned in 2015 by John Kerry, the US Secretary of State at the time: "The United States and our partners are not seeking so-called regime change".<sup>59</sup>

Since the beginning of 2019, the EU has imposed sanctions on cronies and warlords involved in the regime-controlled reconstruction process and particularly large residential and commercial projects in Damascus. This reconstruction process involves constructing new luxury residential and commercial buildings after reallocating land from hundreds of families to a few cronies. Among the individuals targeted by sanctions was Samer Al-Foz, one of the leading warlords who emerged during the conflict and benefitted from the aforementioned regime-led reconstruction process.<sup>60</sup>

The process of imposing sanctions during this phase reached its peak in December 2019 when the US president signed the Caesar Syrian Civilian Protection Act that came into force on the 17<sup>th</sup> of June 2020. The bill authorized bans and financial sanctions on any foreign individual and entity doing business with the regime in Syria, specifically businesses related to the military, oil and gas sectors, and reconstruction activities led by the government of Syria.<sup>61</sup> The Act is also causing a 'chilling effect' among foreign companies including banks, since they prefer to de-risk and avoid dealing with any Syrian individual or entity even in activities not targeted by sanctions.

At the same time, the Act gives US administration significant bargaining power over international actors when they discuss any political reform or the reconstruction process in Syria. It states that "the [US] President may suspend in whole or in part the imposition of sanctions otherwise required under this Act or any amendment made by this Act".<sup>62</sup>

<sup>56</sup> UN Security Council resolution S/2019/775. Available at: <https://undocs.org/en/S/2019/775>

<sup>57</sup> U.S. Department of the Treasury (2018): "Treasury designates Russia oligarchs, officials, and entities in response to worldwide malign activity", Press release. Available at: <https://home.treasury.gov/news/press-releases/sm0338>

<sup>58</sup> U.S. Department of the Treasury (2019): "Treasury targets sanctions evasion scheme facilitating jet fuel shipments to Russia military forces in Syria", Press release. Available at: <https://home.treasury.gov/news/press-releases/sm785>

<sup>59</sup> Wall Street Journal (2015): "Kerry Softens Position on Syrian President Assad". Available at: <https://www.wsj.com/articles/john-kerry-in-russia-in-effort-to-keep-syria-talks-on-course-1450183175>

<sup>60</sup> EU Council Implementing Decision (CSFP)2019/87 of 21 January 2019. Available: <https://eur-lex.europa.eu/legal-content/en/TXT/PDF/?uri=CELEX:32019D0087&from=EN>

<sup>61</sup> H.R.31 – Caesar Syria Civilian Protection Act of 2019. Available at: <https://www.congress.gov/bill/116th-congress/house-bill/31/text>

<sup>62</sup> Ibid

Sanctions also continue to target individuals and entities within the same categories of actors described in the previous phases. This phase also witnessed an increase in the number of civil officers and ministers in the government of Syria targeted by sanctions. For instance, the EU imposed sanctions on all ministers in the new government formed in June 2014.<sup>63</sup> In the same context, governors were included in the EU list of individuals targeted by sanctions. It is worth noting that only a few of these officials on the sanctions list actually participated in violence-related activities; and those who did had to accept the assignment, otherwise they would be treated as “traitors”.

## 7.2 Impact on actors and their relations

The actors indirectly affected by sanctions in this phase continue to include those highlighted in phase II in addition to external actors, mainly Russian banking and financial entities. At the same time, the indirectly affected actors include Syrian private sector (SMEs), the majority of Syrian common citizens, warlords, foreign business actors (companies and businesspeople), criminal and violence-related networks, NGOs, INGOs, UN, and humanitarian agencies.

The sanctions did reduce the flexibility of the regime in terms of conducting financial transactions and using its resources for violent activities. Yet, the sanctions and the conflict combined have led to a catastrophic deterioration in national economic performance and in the wellbeing of families in Syria.

The sanctions have continued to affect directly the living conditions of households in Syria. People suffer from poverty, lack of job opportunities, depleted incomes, a surge in prices, and difficult access to basic goods such as medicine and fuel. Due to this catastrophic economic decline in Syria, humanitarian support has become essential for the daily survival of Syrian families particularly in the most conflict-affected areas. Yet, sanctions, combined with counterterrorist financing legislation, have made it very even much more difficult for humanitarian organizations that are active in Syria to move and access funds (Gordon, Robinson, Goulding, & Mahyub, 2018).

The Russian banks and institutions that were targeted by sanctions seem to have faced internal challenges. The Central Bank of Russia has withdrawn the licences of two Russian banks because of financial difficulties; the banks are Tempbank<sup>64</sup> and The International Bank.<sup>65</sup> Both are banned by the USA.

The internal networks of wealthy cronies and warlords continue to benefit from the sanctions by exploiting Syrians inside the country. They control the smuggling channels and routes with Lebanon and Iraq. They also manage to cooperate with external partners in overcoming the sanctions. For example, in June 2018, the vice governor of Sevastopol in Crimea announced the launching of a permanent shipping line between Sevastopol and Tartous in Syria mainly for the supply of grain with a plan to include other materials mainly building materials.<sup>66</sup>

<sup>63</sup> EU Council Implementing Decision 2014/730/CFSP. Available at: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex%3A32014D0730>

<sup>64</sup> Bank of Russia (2017) - Press release. Available at: [https://www.cbr.ru/eng/press/PR/?file=02102017\\_102400eng2017-10-02T10\\_23\\_04.htm](https://www.cbr.ru/eng/press/PR/?file=02102017_102400eng2017-10-02T10_23_04.htm)

<sup>65</sup> Bank of Russia (2018) - Press release. Available at: [http://www.cbr.ru/eng/press/pr/?file=31102018\\_123532eng2018-10-31t12\\_32\\_35.htm](http://www.cbr.ru/eng/press/pr/?file=31102018_123532eng2018-10-31t12_32_35.htm)

<sup>66</sup> Al-Sharq Al-Awsat (2018): “Shipping line between Tartous and Crimea” (in Arabic). Available at: <https://bit.ly/3mJuMwL>

Figure 5 illustrates the impact of sanctions in Phase III. There is very little impact on security/military actors. The only beneficiaries from the imposed sanctions are still the cronies / warlords and their international partners. Despite being targeted in person by sanctions and despite the banning of their activities in the West, they benefitted by being able to monopolize the internal market and by controlling smuggling routes, and they also benefit from the regime-led reconstruction process. By sanctioning foreign entities and introducing the Caesar Act, the USA increased the risk and uncertainty for any international actor planning to deal with internal actors in Syria who are on the sanctions list.

### 7.3 Impact on bargaining power

This phase has witnessed a notable change in power dynamics and distribution between and within the different actors involved in Syria. The Russian intervention was a turning point in the Syrian conflict. Indeed, the regime began to recapture large parts of Syrian territories with huge support from Russia and Iran. This makes the regime much less flexible in accepting any political reform and more convinced of the utility of the military and security approach. But at the same time, the regime has much less bargaining power with its allies Iran and Russia who have initiated a number of projects in Syria that represent their own cultural and business interests.

The Amrit oil and gas agreement is a good example of these projects and they show how sanctions have contributed to the increasing influence of the Russian cronies over Syria's resources. After the withdrawal of all European and American oil companies from the country, the Syrian government announced in 2013 the Amrit agreement with the Russian company Soyuzneftegaz which aimed to discover and extract oil and gas from a large Syrian land and sea territories. Many experts have warned that the company is an oil and gas trading company, and it has no experience in discovering or extracting activities. The head of this company, Yuri Shafranik, is a Russian crony who has had a close relationship with the authorities in Moscow since the mid-90s (Al-Sayed, Eid, & Abu Ghait, 2020).

In early 2014, an official agreement was signed between the Syrian government and the Panama-registered Soyuzneftegaz East Med, and not the main company in Russia. In another attempt to evade sanctions, even this sub-company has changed its name in 2015 to become Amrit S.A East Med. Although experts studies and surveys indicated that the Syrian territorial waters have only relatively small quantities of oil and gas, the agreement gives Russia a large influence over the oil and gas sector in Syria for the coming 25 years and without much investment (Al-Sayed, Eid, & Abu Ghait, 2020).

This example reveals the increasing influence of Russian cronies over Syria's wealth and resources, and their techniques to circumvent the US sanctions. The agreement also demonstrates the extent to which the regime is ready to trade Syria's economic potential for external support for its authority. The agreement has also played a role in the regime's propaganda, claiming that Syria has unlimited mining resources and that this is why, according to its narrative, western countries are conspiring and fighting and imposing sanctions on its government.

The third phase has also witnessed proliferation of organized jihadists and terrorist groups, such as ISIS and Al-Nusra, which has shifted the priorities and resources of the international community away from facing an authoritarian regime to confronting criminal and terrorist entities. These groups controlled gas and oil fields in Syria in addition to wheat farming. To overcome the impact of



sanctions, the regime and its cronies opened internal informal trading routes with these groups to secure the oil.

In October 2018, Kurdish authorities, with the support of the international coalition, captured Raqqa city which was declared by ISIS as their capital. This marked the end of ISIS in terms of its formal governance structure. This was followed by two main Turkish military operations against Kurdish armed groups located in Syrian towns near the Turkish border. Hence, it became clear that in Syria there are three main internal actors. The regime supported by Russia and Iran, Turkish-led opposition forces, and SDF that the USA and the international coalition claim to support. The EU sanctions have so far failed to achieve their objectives or to give the EU much leverage in Syria.

As for other external actors, the United Arab Emirates reopened its embassy in Damascus on the 27th of December 2018.<sup>67</sup> This event gave a political boost for the regime. It was considered as a first step for rehabilitating Syria's relations with other Arab states, particularly the Gulf states that can play an important financial role in any reconstruction process in Syria. This step also challenged the sanctions regime imposed on Syria and opened the door for potential investments in the country. Yet, the Caesar Act makes it difficult for any external actor to open channels, mainly economic ones, with the regime without USA approval.

The EU introduced a new clause for reversing its economic measures against the regime and even promised to assist in the reconstruction of Syria if a comprehensive political transition were to take place and the Syrian regime were meaningfully to engage in the UN-led political process. But still, this did not yield a genuine, noticeable engagement from the regime side in the political process. The literature on sanctions suggests that conditionality is not known to be effective in contexts similar to Syria where geopolitics and not peace is the major issue for donor countries (Boyce, 2004; Fisher, 2015). Moreover, it is difficult for the EU conditionality to work when EU countries openly support the opposition political entities. This binary positioning kills any desire for compliance by the regime, even for economic gain (Dahi, 2019).

The regime is trying to avoid unexpected consequences from the catastrophic economic decline. Thus, it uses sanctions as an excuse for all its economic failures. Moreover, in August 2019, the regime launched an anti-corruption campaign targeting cronies and warlords, including those targeted by sanctions such as Rami Makhlouf.<sup>68</sup> The regime might be aiming to legitimise itself internally rather than internationally. This event shows the regime's capacity to replace the wealthy cronies who are on the sanctions list with a new group of 'clean' businesspeople not on the list.

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<sup>67</sup> Reuters (2018): "UAE reopens Syria embassy in boost for Assad". Available at: <https://www.reuters.com/article/us-mideast-crisis-syria-uae-embassy-idUSKCN10Q00V>

<sup>68</sup> The New Arab (2019): "Powerful cousin of Assad placed under house arrest in Syria – reports". Available at: <https://english.alaraby.co.uk/english/news/2019/8/28/cousin-of-assad-arrested-in-syria-reports>

## 8 Summary and Discussion

In this paper we have presented an overview of the impact of sanctions on internal and external actors involved in the Syrian conflict and on their power relations, in addition to the effect of sanctions on the overall economic dynamics in Syria. We divided sanctions imposed on Syria since 2011 into three phases. In the first phase, western sanctions targeted Syrian individuals, mainly key regime figures and security and military actors, alongside a full arms embargo. These actions were accompanied by several related moves, such as cutting diplomatic ties and suspending bilateral cooperation programmes between the EU and the Syrian government. In the second phase, the sanctions aimed mainly at the regime's financial resources and economic foundations, including the banking sector, ministries and the oil sector. In the third phase, sanctions expanded to include external actors dealing with the Syrian government.

Based on our findings, we summarise below the key transformations that are driven by or accelerated by sanctions to the economy and the actors and their power relations. It is important to stress that in the context of a complex conflict where the economy is deteriorating due to a combination of factors; it is difficult to isolate the impact of economic sanctions on its own. However, the sanctions have created enormous economic challenges and played an important role in shaping the economy, and the actors' relationships, both internal and external.

### 8.1 The depletion and redistribution of public financial resources

The analysis indicates that in the first phase, sanctions did not have a notable impact on the resources of the state, as they only targeted key regime figures. The regime used this phase to prepare for the potential impact of further western sanctions, drawing on its experience with European and US sanctions since 1979. The arms embargo also had a minimal effect because the Syrian military relies predominantly on Russia for its weapons supply.

Sanctions during the second phase targeted the financial resources of the regime and its ability to reach external markets. Sanctions on the banking sector hindered the regime's ability to conduct international transactions including trading activities, money transfers, and open credit lines. It also reduced its income from the exports of both public and the private sectors. The sanctions on the energy sector contributed to a deterioration in public revenues. The sanctions on the oil sector and the subsequent constraints imposed on trading during this phase led to a sharp drop in oil production.

Sanctions imposed during the third phase made it even more difficult and costly, but not impossible, for the Syrian government to reconnect with the external world and financial market even through the proxies of its allies. It also eliminated potential new resources through companies willing to invest in Syria and play a role in the reconstruction process.

Although the sanctions reduced the financial resources of the regime and minimized its flexibility in conducting external financial transactions, none of this led to a reduction in violence and oppression. On the contrary, the second phase, which hit the resources of the regime the most, was the most violent period in the Syrian conflict.

Instead of changing its behaviour towards meeting the requested conditions for lifting the sanctions, such as not targeting and arbitrarily arresting civilians, the regime looked for new resources and redistributed the available ones without considering any sizeable reduction in the budget of its core

military and security institutions. To increase its revenues, the government increased taxes and established a network of warlords and cronies to become the new channel of illicit returns for the regime's core institutions. In parallel, the regime carried on in its use of different coercive measures to control all actors including warlords, businesspeople, and ordinary people.

The regime also reduced public expenditure to compensate for the losses and to support its military and security operations. It reduced subsidies on several essential goods and drastically cut spending on basic services such as health, education, electricity and fuel (SCPR, 2015). The public service sector received another hit to its capacity by also being targeted by the sanctions.

### **8.2 Flourishing shadow economy**

The sanctions had an overall direct and indirect impact on the nature of the economic dynamics in Syria. This was particularly the case of the sanctions during the second phase, as they were openly aimed at undermining the economic foundations of the regime. They paralyzed a large part of the formal economy, including trading and the finance and banking sectors. The drying up of all foreign currency resources put a lot of devaluation pressure on the Syrian Pound and encouraged the flourishing of the black market.

Our findings also suggest that sanctions on the banking sector and on state institutions accelerated the expansion of the shadow economy. The dependence on cash transactions exploded, alongside informal trade and other activities which became difficult to trace. Even state banks started relying on informal currency exchange networks. This helped to create a perfect environment for war profiteers, criminals and cronies, with everything taking place in the shadows, untracked and unmonitored, and creating an ideal environment for corruption to flourish even more.

### **8.3 Damaging independent businesses**

Our analysis shows that sanctions placed another steep hurdle in the way of the independent private sector, particularly SMEs and traditional businesses. During the first phase, they were hit by the increasing level of uncertainty, which led them to take precautions, such as cutting down on their activities and laying off some of their employees. Larger independent businesses began to sell their assets inside the country, exchange their savings and cash into hard currencies and transfer them outside the country, leading to a significant capital flight.

In the second phase, the sanctions on the financial entities sped up the capital flight even more, since these financial institutions were the main financial channels between businesspeople inside Syria and external markets. An enormous drop followed in private sector import and export of many goods, including some vital products such as medicine and medical equipment that are not included in the sanctions. This is because many western providers and banks shied away from engaging with any operation or transaction that involves Syria, even if it did not violate the sanctions, because of the risk involved. Some businesses, such as importers of medical equipment, changed their providers from Europe and the USA to China, Russia, India and other countries not involved in sanctions.

The costs of evading sanctions were too high for most independent businesses to afford, especially SMEs, who also lacked the external relations and access needed. Some businesses had to resort to the black market for supplies, such as resourcing certain parts and accessories through Lebanon, which increased the costs of operations.

All the above, combined with other conflict factors, had a wrecking effect on the independent private sector, especially at the small and medium level. This increased the space for those parts of the private sector with strong ties to the regime. This made the private sector in Syria considerably more politicised than before the conflict. It shifted the business power dynamics in the country to being under the full control of the regime's core elite and facilitated the process of reallocating resources for their benefit.

#### **8.4 Impacting the elite dynamics**

Sanctions had different impacts on the regime's elite, including individuals in power or very close to power, such as cronies. The political message behind stronger sanctions in the first and second phases could have been among the indirect reasons that led to the defection of some security/military officers and other state officials, especially during 2012/13 when the regime was losing territory to various opposition forces. Yet, it is not possible to identify the exact extent to which sanctions have provoked these defections, with many other possible causes, such as not wanting to be part of a regime that uses violence against civilians, or the financial incentives offered to some of them by external actors (Lyme, 2012). On the other hand, defection among high-ranked officers remained relatively low and their loyalty to the regime could easily have been strengthened by the feeling that they were all 'in the same boat'.

During the conflict, the core political and security elites began to create new cronies, including warlords, to replace those who left the country. For instance, many para-security personnel and small businesspeople who participated in suppressing the civil demonstrations during this phase became cronies/warlords benefitting from the regime's protection and partnership. Among many other examples, there is the former Member of Parliament, Ahmad Darwish, who used to have a tribal militia to support the regime. At the same time, he controlled trade between regime-controlled and opposition-held areas in north Hama, which yielded him a fortune from the fees extorted (Homos, 2018).

We find that crony capitalists who had assets and investment in Europe and the USA quickly reallocated a large part of them to non-sanctioning countries such as Russia and the UAE. They also opened bank accounts in safe havens. Sanctions increased the costs of their operations, made them more difficult, and limited their movements, but did not lead to a significant loss of their resources, nor did they lead to the end of their relationships with the regime. One example of this finding is the substantial increase in the Makhlouf family's investment and property portfolio in Russia during the conflict (Foy & Cornish, 2019).

While cronies already had an important role to play in supporting the regime, sanctions gave some of them an important new external role, such as Mudalal Khouri and the Abdelkarim Group. Those who have what it takes to circumvent sanctions, such as relations abroad, access to international law firms and non-sanctioning business and financial institutions, now have an important role to play. They became the new gateway for the regime and its officials to the external world. Many of them, like Mudalal Khouri, played a role in cooperating with external partners, including Russian cronies who are on the sanctions list in circumventing the sanctions. This new role opened up an alternative source of revenue for them that sets off some other losses caused by sanctions, and they gained power as the regime rewarded them in various ways.

The regime seemed to be able to sideline any sanctioned crony, such as Rami Makhoul, and invest in new, 'cleaner' ones, less well-known to the outside world, such as Yassar Ibrahim and Muhannad Dabbagh (Hamidi, 2020).

Internally, and as the economy was rapidly evolving into a war economy, the cronies and middle men emerged again to play a role as the channels to illicit resources for the regime, and as the ones who were able to engage in internal operations involving commodities on the sanctions list on its behalf. One example is the Syrian businessmen like Katerji, who specialised in buying Syrian oil from the actors who controlled it, including ISIS and SDF, and channelling it to the regime (Georgy & Dahan, 2017).

The findings suggest that the diminished space for the independent private sector facilitated the monopoly of the cronies and warlords over the internal market. Subsequently, they gained more power, and they became the primary employers aside from the state. Their businesses grew even bigger and became more influential, even though they were targeted by sanctions.

It is worth noting that while cronies are important to the Syrian regime; they are not irreplaceable. As far as the regime is concerned, what matters is their function in supporting the regime's sustainability, and not their personal relations to the head of the regime. The case of Rami Makhoul, who fell out of grace in 2019, is a very good example of this.

In principle, placing sanctions on warlords and cronies remain important. It sends them an important message; it highlights their criminal records, and it limits their movement and their access to the international market. Yet, two points should be taken into account: the first one is the capability of the Syrian regime to replace 'old' cronies with 'new' ones, according to its interest at the time. The second point is the powerful illegal transnational networks that give the warlords and cronies inside Syria the opportunity to circumvent sanctions and monopolize the main economic activities.

### **8.5 Changing external relations**

Sanctions and the diplomatic and political measures that accompanied them were among the principal contributors to a shift in the Syrian government's external relations. Before the conflict, the regime used to have good relationships with a relatively high number of countries from different international and regional blocs, some of them rivals with each other (e.g. relations with both Russia and the USA, and with Iran and Saudi Arabia). During the conflict, the regime's external relations became predominantly dependent on two states, Iran and Russia. This suggests that unilateral sanctions are less likely to succeed, since the targeted countries are more likely able to find alternative trading partners, as established in the sanctions literature (Martin, 1992).

The sanctions imposed, together with some of the diplomatic steps taken, led to significant loss of leverage by most external actors in Syria. They also substantially increased the power Iran and Russia had over the economic, military and political decision-making of the Syrian government. This study has come across many such examples, such as the Amrit agreement, which revealed diminishing bargaining power for the regime in relation to its allies Iran and Russia. Such agreements and projects represent their backers' interests and do not necessarily serve the needs of Syrians. This influence is expected to be maintained for a significant period, assuming the continuation of the current political, military and economic dynamics. But at the same time, this could create cracks and polarization within the core elite between those who are pro-Iran and those

who are pro-Russia. Till now, the regime seems to have benefitted from this duality, which has led to an internal balance of power. Yet the competition over influence and resources between Iran and Russia is becoming more apparent.

### **8.6 Impoverishing ordinary people**

They are not on the sanctions list, but ultimately ordinary Syrians have been the ones hit hardest by the indirect impacts of the sanctions. These have included increased poverty levels, caused by unprecedented increases in the prices of basic products, a surge in the unemployment rate, sharp local currency devaluations, and poor business opportunities for SMEs and traditional businesses. They have also suffered from the deterioration in the level of public services, caused in part by sanctions on the civil administration. The increase in the cost of transferring even the smallest amount of money to Syria has affected many households that depend on monthly remittances.

People's agency and their ability to exert more pressure to achieve change gradually diminished as the majority of those well-off and independent from the regime left the country, while those not affluent enough became increasingly more concerned with their livelihoods.

Independent civil society actors working for the public good were also indirectly affected. Non-governmental organisations who relied on external EU funding had their funding cut. Sanctions, combined with counterterrorist financing legislation, have made it even much more difficult for humanitarian organizations that are active in Syria to move and access funds.

The gamble that further suffering by the people would lead them to revolt against the regime has a low chance of materialising. Syrians in the regime-controlled areas learned the hard way what is the likely cost of revolting against this authoritarian regime again. Many would rather endure the negative economic results of the war and the sanctions, judging that the cost of any action would outweigh any political benefits. The continuous severe deterioration of living conditions could however reach a stage that makes the cost of the unbearable conditions for some Syrians higher than the cost of revolting against the regime. Such a revolt, were it to happen, would be very unlikely to lead to significant political change.

## **9 What could be done?**

With the exception of sanctions on individuals and the core regime institutions, it is difficult to argue in favour of most of the sanctions that have been imposed on Syria. Some have had a desirable effect, but most have primarily hit the living conditions of Syrian civilians.

But would the lifting of the sanctions resolve the above issues? The answer is not straightforward. The transformations which the sanctions contributed to are non-linear and non-commutable; lifting them all could not simply reverse the undesired effects, and take the economy back to 2011. This is because, together with other conflict-related factors, a new political economy has been created inside Syria, based on new actors and power relations, with its own channels and means for distributing any resources and profit. This typically diverts resources away from ordinary citizens and benefits the elites, as discussed above. Pouring resources into such a milieu would only fuel the corruption and cement the monopoly of corrupt and criminal elites over the internal market. In other words, there is a sanctions trap, with no simple exit.



Currently, the Syrian economy is in its worst shape since the beginning of the crisis. The Lebanese banking crisis rapidly exacerbated the situation, and had an immediate, dramatic impact on the exchange rate of the Syrian pound and on the food consumer price index. This is because after sanctions closed all other routes, Lebanon, its banks and business infrastructure had become the main gateway to the rest of the world for the Syrian regime, Syrian businesses and ordinary people. The regime is currently struggling to provide basic services and is unable to reward its increasingly frustrated loyalist base, or even to keep many of them out of poverty. The majority of Syrians are now well below the poverty line, and the level of suffering is reported to be higher than at the most violent point of the conflict. Western sanctioning states are the same ones who are footing the humanitarian bill for the crisis. But as many commentators have pointed out, this crisis is not at root a humanitarian crisis, and continuing to treat it as such risks extending it.

This is why it is now a particularly appropriate time to devise a new strategy for Syria, with a robust economic component, and in which sanctions could be used as a constructive tool, if aligned with other elements, and if not all the burden of achieving change is laid on them.

Sanctions should be part of a wider strategy that aims at demilitarising the conflict, aiding gradual democratisation and the building of inclusive, fair, and transparent state institutions, and to bring substantial improvements to the socio-economic situation in Syria. This would also give those countries that imposed sanctions more leverage.

Transformation from a conflict-related economy to a productive one should be a key element in such a strategy. The easing or lifting of some sanctions, together with some current modes of funding, and with further potential funding for economic recovery, should be used as an incentive, conditional on clear steps to meet the aims of such a strategy and to support the economic transformation. So far, using such conditionality at a very high level has not been successful. Rather than simply targeted at top-level, rapid change, conditionality should be multi-layered. Meso-level conditionality is required, with concrete requirements with the potential to bring meaningful change to the lives of ordinary Syrians, empower them, and provide them with more alternatives.

It is important to stress that the various sanctions cannot be treated equally in any policy. Easing some sanctions and increasing their exemptions would benefit ordinary people, independent businesses and civil society, while lifting some other sanctions under the current situation could lead to more harm and to the empowerment of core regime figures and institutions without helping to ease meaningfully the suffering of the Syrian people.

A review of all the imposed sanctions and their impact is overdue. It should set out clearly which sanctions could be altered to alleviate the suffering of ordinary people directly or indirectly. It is also crucial to understand and counter the measures that the Syrian regime is likely to take in order to transfer the burden of the sanctions to the people.

Some practical examples:

- Provide targeted support for civil society and independent SMEs inside Syria in order to give more agency to the people, and to lessen the humanitarian suffering in a more sustainable way. Sanctions and de-risking are also an obstacle in financing civil society activities and business development. Thus, establishing new parallel financial mechanisms, such as trust funds, could be a solution. This could be negotiated so that the Syrian government would allow Syrian civil society and entrepreneurs to access such trust funds. Clear vetting systems could be developed. Also, clear conditions could be put on the table, such as greater respect for human rights and refraining from arbitrary detention and the targeting of civilians, and the passing of a new progressive NGO law (the current one dates back to 1958). Funds should be transferred through clear formal routes and the dispersing of grants made through certain banks to make the whole financial operation transparent, traceable and less likely to feed into corruption. Suitable oversight mechanisms must also be developed.
- Specific sanctions relief and exemptions are needed to undo the harm on the health and education sectors. This has become particular issue since the onset of the COVID-19 crisis. Some more ideas on this are discussed in our paper “COVID-19 in Syria: policy options” (Rim Turkmani, Gharibah, & Mehchy, 2020). The same applies to the food and energy sector, as the severe bread and fuel crises in Syria are in part caused by sanctions.
- The contribution to the humanitarian and non-humanitarian costs of the Syrian crisis, by those states that have imposed sanctions, also needs to be aligned and coordinated with the points raised above, and to address socio-economic challenges, by shifting the nature of the support from being humanitarian-focused to becoming focused on governance, development, and the revival of SMEs. Alternative financing mechanisms and sanctions exemptions should also be considered to make it easier for Syrian and International NGOs to provide such support.
- Effective monitoring systems and other solutions could be used to mitigate the risks of the sanctions on the energy sector hitting the Syrian people and the health and education sectors.

The analysis presented in this paper of the Syrian experience of sanctions could provide lessons for the imposition of sanctions in other contexts. First, it is very difficult to change the political status quo by using sanctions for a long period of time. In the Syrian case, an authoritarian regime has been able to cope with sanctions, to adapt, and to redirect their negative impacts onto ordinary people. Second, sanctioning states should regularly evaluate the impact and effectiveness of their sanctions on ordinary people and on the behaviour of the targeted regime and its international allies, and adjust their sanctioning approach accordingly. Third, sanctions should be considered as one tool, coordinated and aligned with other tools, within a comprehensive strategy that seeks the support of internal civic actors in the targeted country, and which is in line with their needs and aspirations. Fourth, it is important to have global consensus on sanctions, and if this is not possible, sanctioning countries should coordinate amongst themselves to achieve a strategy agreed on a multilateral basis. Imposing sanctions only from one particular set of states risks exacerbating international divides around the conflict, and could lead to significant loss of political leverage.

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