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Syria's manufacturing sector: the model of economic recovery in question

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Executive Summary

During the war, the manufacturing sector suffered tremendous destruction and damage, and from looting and transfers of activity to neighbouring countries. In the meantime, the pre-war dynamics of the economy have significantly worsened. The rise of the war economy and the boom in trade activities are serious barriers against the rebirth of the manufacturing sector, yet a recovery of manufacturing is crucial as it might encourage alternative employment to the job opportunities directly linked to the war economy.

However, the sector faces multiple internal and external challenges as direct consequences of the war (a shortage of manpower, a fall in the currency, a fuel crisis, higher costs of production, a shrinking national market and the closure of foreign markets). The deepening of wide and general sanctions against Syria also significantly affects the recovery of manufacturing activities.

At the same time, the Syrian government's policies to re-develop the manufacturing sector are not enough to counter the general political economy dynamics favouring trade, service, real estate and rentier activities. When some government measures to re-boost the productive sectors of the economy are directly in contradiction with the interests of crony capitalists and the new economic elite networks linked to the regime, the latter usually prevail.

Introduction

After two decades of massive expansion of the industrial sector (in the 1960s and 1970s), the level of public and private investment in manufacturing industries has constantly decreased since the early 1990s as a result of an acceleration of economic liberalisation policies. In 2009, the manufacturing sector² contributed only 6.9 percent of GDP while it employed around 15 percent of the Syrian workforce.³ It has been one of the sectors most severely affected by the war and is very far from recovering its pre-2011 level of production.

Despite its relatively small size in terms of its weight in the Syrian GDP, the manufacturing sector could be a key element to the stability of the economy. Along with agriculture, it is a fundamental part of the productive economy. Indeed, manufacturing is generally considered to have the largest multiplier effect in an economy. In other words, its growth could induce more production in other sectors and spur the creation of jobs (for both skilled and non-skilled people), investment and innovation elsewhere.

This is why study of the manufacturing sector is important in order to tackle various issues regarding Syria's political economy. This paper first provides an overview of the decline in this sector and an assessment of its destruction. It then discusses the main challenges and obstacles involved in the redevelopment of activity in the sector. It also examines the Syrian government's policies to alleviate the difficulties of Syrian manufacturers and the contrasting positions of different members of the economic elite in the country.

The study makes extensive use of media reports and newspaper articles published in Syria on the manufacturing sector and interviews and informal discussions conducted with a few Syrian manufacturers.

² The 'manufacturing sector' refers to all the industrial sector except mining (oil, gas and phosphates) and energy (electricity).

³ In comparison, manufacturing represented 18.1 percent of GDP in Jordan, 15.6 percent in Egypt, 12.6 percent in the UAE, 9.1 percent in Lebanon and 6.8 percent in Qatar. Cited in Lahham, F. (2010) 'Syrian Industry and future challenges' (in Arabic), *Maftoum*, 3, <https://bit.ly/2ZkC2TS> (accessed 20 February 2019).

1. The destruction of Syria's manufacturing sector

At the beginning of 2019, the value of damage and destruction in the public and private industrial sectors was estimated at between \$3 and \$4.5 billion.⁴ Nationwide, at the end of 2018 the number of Syrian industrial establishments had fallen to between 65,000 and 71,000, compared to around 130,000 prior to the uprising.⁵ Major manufacturing facilities or parts of them (such as those of Nestlé, the Bel Group and Elsewedy Cables Syria) have been relocated within the country, especially to coastal areas, or outside.⁶ The establishment of new companies and production plants in neighbouring countries by Syrian businessmen has benefitted these countries with considerable cash injections, but also constituted a huge loss for internal production. However, the decline in the industrial manufacturing sector had already started before the uprising in 2011.

1.1 The legacy of the last decades

In the 1970s, the Baathist governments expanded public industrial manufacturing production with the objective of achieving economic independence. By 1985, the public industrial sector employed around 140,000 workers, almost 40 percent of the country's industrial workforce. Between 1970 and 1978, industrial manufacturing output increased at an average annual rate of 11.6 percent, compared to only 5.6 percent between 1960 and 1970. Production not only satisfied local demand but a portion of it also entered markets in the former USSR and eastern Europe.⁷ However, since the second half of the 1980s the level of public and private investment in manufacturing has constantly diminished.

The private manufacturing sector maintained and developed its activities following the Baath' arrival into power, although some manufacturers were nationalised. A certain number of them with close links to state officials also benefitted from significant state contracts, especially in the 1970s. However, from 1991 to 2002 only 291 private manufacturing projects were approved by the Ministry of Industry under Law 10 of 1991 (which was intended to promote and encourage national and foreign private investment), generating no more than 13,700 jobs.⁸

According to data from the Ministry of Industry, in 2009 the public manufacturing sector was still a significant actor, but the private sector was the largest employer.

⁴ Economy2Day (2019) 'Industrialist wishes the government to support industrialists with the prices of oil derivatives' (in Arabic), 9 February, <https://bit.ly/2VX7rKl> (accessed 15 February 2019).

⁵Ghanem, H. (2018) 'Khamis: we won't allow any corrupt businessman or employee' (in Arabic), *al-Watan Online*, 22 December, <https://bit.ly/2Upy4Wm> (accessed 28 December 2018).

⁶ Al-Mahmoud, H. (2015) 'The War Economy in the Syrian Conflict: The Government's Hands-Off Tactics,' *Carnegie*, 15 December, <https://bit.ly/2UJqfjk> (accessed 20 December 2018).

⁷ Matar, L. (2015) *The Political Economy of Investment in Syria*, UK, London, Palgrave Macmillan, 20 and 44.

⁸ Matar, L. (2015), *ibid.*, 123.

2009	Private manufacturing sector ⁹	Public manufacturing sector
Number of establishments officially registered	127,000	96 enterprises organised in 8 public institutions
Total capital value	370 billion SYP (around \$7.4 billion)	510 billion SYP (around \$10.2 billion)
Number of workers	452,000	75,000
Main fields of investment/production	Pharmaceuticals Food processing Textiles	Textiles Chemical Engineering Cement
Structure of the sector	<p>Small, medium and large enterprises:</p> <p>Small enterprises (with an average of 3 workers): 76 percent of total employment in the private industrial sector with an average capital investment of 2.5 million SYP (around \$50,000).</p> <p>Medium-sized enterprises (with an average of 6 workers): 23 percent of employment, with an average capital investment of 6.2 million SYP (around \$124,000).</p> <p>Large enterprises (with an average of 51 workers): less than one percent of employment, with an average capital investment of 223 million SYP (around \$4,460,000).</p>	<p>Eight public institutions:</p> <p>The General Organisation for Textile Industries: 26 branch companies employing about 44 percent of the workforce in the public industrial sector;</p> <p>The General Organisation for Chemical Industries: 13 companies employing 18 percent of the workforce;</p> <p>The General Organisation for Engineering Industries: 13 companies employing 15 percent of the workforce;</p> <p>The General Organisation of Food Processing Industries: 22 companies employing 7.6 percent of the workforce;</p> <p>The General Organisation for Sugar: 9 companies employing 5 percent of the workforce;</p> <p>The rest: the General Establishment for Cement and Building Materials, the General Organisation for the Ginning and Marketing of Cotton and the General Organisation for Tobacco.</p>

⁹ Lahham, F. (2010), 'Syrian Industry and future challenges', *ibid.*

Some of the most important investments in private manufacturing industry in the 2000s were in pharmaceuticals,¹⁰ food processing¹¹ and textiles.¹² In the second half of the 2000s such ventures found an increasingly lucrative market in Iraq, which became Syria's largest single export destination with sales of \$2.3bn in 2010 out of a total of \$12.3bn.¹³ At the same time, 43 of the public establishments were making a loss, while 48 were profitable. However, both private and public manufacturing industry were suffering from many problems.

Before 2011, the public sector was particularly affected by a high level of absenteeism in manufacturing facilities – estimated at a third of the total number of registered workers – and by a lack of modern technology, promotion and marketing of products, and state investment. Successive Syrian governments had increasingly abandoned the sector, devising no strategy to re-develop and modernise it and assigning it a more social role of providing work rather than being an important element boosting productive sectors of the economy. The number of employees in the Ministry of Industry and public manufacturing institutions continually decreased between 2005 and 2009, with a decline of 9 percent resulting from a suspension of new appointments.¹⁴

Manufacturing also received a low level of public and private bank loans compared to other economic sectors. In 2007, the industrial and mining sector's share of public and private bank loans was rather small, only 9.4 percent and reserved mostly for large establishments, while commercial activities and real estate represented respectively 48.4 and 14 percent.¹⁵

On the other hand, small and medium-sized enterprises (SMEs), which made up more than 99 percent of the Syrian private manufacturing sector, were lacking in productivity and competitiveness in the global market due to shortcomings in modern management, technology, training, research and development. This led to a decline in the volume of industrial exports. Syrian SMEs also suffered from the progressive elimination of trade barriers resulting from the implementation of the Greater Arab Free Trade Area (GAFTA), the agreement for which was signed in 2005, along with bilateral agreements with neighbouring Turkey. Trade liberalisation led to a significant increase in imports of foreign products – a surge of 62 percent between 2005 and 2010 – rather than exports of Syrian products, which grew by only 34 percent in the same period.¹⁶ Especially the treaty with Turkey and the resulting massive importation of Turkish products played a negative role in the dislocation of productive resources and in the closure of many local manufacturing plants, particularly those situated in the suburbs of the main cities. These were the places where many protests initially began in 2011.¹⁷

While one of the main objectives of the GAFTA was to boost foreign investment in the manufacturing sector, the foreign direct investment (FDI) inflow toward manufacturing remained low (between 5 and 10 percent of the total inflow). This reflected the speculative and commercial nature of economic development characterised by short-term profit-seeking that was dominant in the region. In addition, the average size of the great majority of Syrian manufacturing establishments – around 5 workers – was too small. Only some larger facilities in industrial cities, especially the two largest ones (Adra in the northeast of Damascus and Sheikh Najjar in

¹⁰ The Syrian pharmaceutical industry covered almost 90 percent of national drug needs and exported drugs to nearly 60 countries. The number of pharmaceutical factories in Syria reached more than 60, producing nearly 7,000 types of product and offering jobs to between 17,000 and 26,000 workers. Hamada, A. (2014) 'The Syrian crisis repercussions on the pharmaceutical industry: analytical field study,' *Journal of Academic Researches and Studies* Volume 6, Number 10, 74-77, <https://bit.ly/2DjAG2i> (accessed 25 February 2019).

¹¹ The agri-food industry accounted for around 25 percent of the total value of manufactured products.

¹² The textile sector employed 30 percent of the labour force in the industrial sector. The number of industrial textile establishments of all sizes reached more than 24,000. These were mostly in Aleppo and the suburbs of Damascus. Muhammad, M. (2014) 'Spinning and weaving' in Syria ... Thousands migrate and workers are trapped in poverty,' *al-Arabi al-Jadid*, 1 May, <https://bit.ly/2V5uYLS> (accessed 2 January 2019).

¹³ Butter, D. (2015) 'Syria's Economy Picking up the Pieces,' *Chatham House*, June 8, <https://bit.ly/2PfK77J> (accessed 30 December 2018).

¹⁴ Lahham F. (2010), *ibid*, 6-7 and 20.

¹⁵ *Ibid*, 1-5.

¹⁶ Seifan, S. (2013), 'Policies of redistribution and their role in the social explosion in Syria' (in Arabic), in Bishara A. (ed.), *Background of the Syrian Revolution, Syrian Studies* (in Arabic), Doha, Qatar, Arab Center For Research and Policy Studies, 116.

¹⁷ Matar, L. (2015), *ibid.*, 115.

Aleppo), benefitted from the trade liberalisation by being able to export their products to various regional countries and further afield.

1.2 Industrial cities: the flagships of the industrial sector in ruins

At the end of the 1990s, the Syrian government established four industrial cities as part of its industrialisation programme.¹⁸ Its objective was to boost large private industrial projects and to attract investors by offering them various facilities and privileges in these zones. Investment Law No. 8 of 2007, which covered all private investment, also provided some projects in industrial cities with exemptions and benefits.

Alongside dozens of smaller industrial zones, four large industrial cities were constructed close to major transport networks in Aleppo (Sheikh Najjar), Homs (Hessia), Damascus (Adra) and Deir Ez-Zor, capturing total investments worth SYP 441.7 billion (\$9.6 billion) since their establishment, according to the Industrial Cities and Zones Directorate (ICZs).¹⁹ However these industrial cities failed to attract massive FDI, as among their 6,946 companies only 221 had foreign assets, mainly because manufacturing was not an attractive sector in terms of rapid profits compared to oil, real estate, trade and various service sectors.²⁰

2010 ²¹	Adra	Sheikh Najjar
Area for industrial activities	3,500 hectares	4,500 hectares
Number of registered companies	3,000	2,700
Number of registered workers	36,000	30,000
Main areas of production	Chemicals – 35 percent Engineering – 35 percent Food – 20 percent Textiles – 10 percent ²²	Textiles – 37 percent Engineering – 30 percent Chemicals – 20 percent Agri-food – 13 percent ²³

By Autumn 2013, more than 90 percent of the manufacturing facilities in Aleppo’s industrial city were closed as the area was outside the control of the regime, and 40 percent of the industrial facilities had halted their activities in Adra industrial city in rural Damascus. In December 2013, most industrial facilities in Adra were closed, while those that continued to operate only reached 30 percent of their production capacity.²⁴ In

¹⁸ The Legislative Decree (No.54) to implement these industrial cities was, however, not enacted until 2004.

¹⁹ Cited in Daily News Egypt (2010) ‘Syria: Industrial Strength,’ 27 October, <https://bit.ly/2VStEsD> (accessed 20 December 2018).

²⁰ The World Bank (2011), ‘Economic Challenges and Reform Options for Syria: A Growth Diagnostics Report (CEM, First Phase),’ 124.

²¹ The World Bank (2011), *ibid.*, 124.

²² Adra Industrial City (2019), ‘Situation of Investment in Adra Industrial city’ (in Arabic), <https://bit.ly/2GstAum> (accessed 10 March 2019).

²³ A small amount of land was planned for service industries. See Aleppo City Development Strategy (2010) ‘Industrial city of Sheikh Najjar Selected Facts & Figures,’ 1-2, <https://bit.ly/2Uq62dB> (accessed 1 April 2019).

²⁴ Mohsein, A. S. (2014) ‘Brief reading about the industrial sector in Syria,’ *Ahewar*, 11 November, <https://bit.ly/2UqIQvI> (accessed 10 November 2018).

2016, of the 2,533 facilities still registered in the industrial cities, only 1,730 effectively remained in production, the majority of which were in Adra.²⁵ However, in the last few years these two industrial cities have witnessed a slight recovery.

Sheikh Najjar was only able to re-develop its activities after the regime and its allies recaptured Aleppo completely at the end of 2016 and restored basic infrastructure during the first months of 2017. According to a Sheikh Najjar investment report, in April 2019 the numbers of industrial establishments and workers had increased to around 550 and 21,000 respectively.²⁶ Although these estimates provided by Syrian state officials or institutions linked to the state should be considered cautiously, this was impressive when compared to just 50 establishments at the end of 2016. Economic activity in the city is nevertheless still at a low level. Aleppo is still suffering from economic and institutional isolation as its links with the surrounding regions have been broken for the past few years, and it is still largely dependent on goods smuggled from Turkey and/or produced in Damascus or the coastal areas. In addition, new commercial roads have appeared in northern areas of Syria, especially in connection with Turkey, considerably weakening Aleppo's business activities and its role as a central economic hub. At the same time, during the war Aleppo city saw the rise of new business figures who are isolated clients of Damascus, while the former Aleppo business class was instead part of "the regime's networks of power and dealt with it on an equal footing."²⁷

Industrial activity in Adra recovered more rapidly compared to Aleppo, as its factories did not suffer the same amount of destruction. After the Syrian regime's armed forces reconquered and secured the housing suburbs next to the industrial city at the end of 2014, the return of basic services (electricity, water and transport) allowed economic activities to re-start. Since then, some industrial facilities have also transferred their activity to Adra. In 2018, the total number of establishments operating had increased to around 1,300, with between 50,000²⁸ and 60,000 workers.²⁹

More generally, official data indicated a small increase in the amount of new manufacturing investment in the country in 2018. According to the annual report of the Directorate of Industrial Investment in the Ministry of Industry, 847 industrial ventures of all sizes began production in 2018, compared with 771 in 2017. Their official capital value was SYP 30.3 billion (USD 60.6 million) and they were expected to generate 3,766 new job opportunities, compared with 3,728 jobs created in 2017. An important number of these, however, were very small craft projects. They were geographically distributed mainly among the governorates of Tartous (171), Hama (170), Rural Damascus (127, including 34 projects in Adra industrial city), Aleppo (110, including 34 projects in Sheikh Najjar industrial city) and Homs (82, including 10 in Hessia industrial city).³⁰

1.3 Manufacturing industrialists scattered between the diaspora and Syria

Some large manufacturing industrialist families started their activities in the 1950s and 1960s, while others established their businesses and expanded them in the 1970s and 1980s by concluding important contracts with the state. With few exceptions, there were no new actors in the manufacturing sector in the pre-war decade due to the nature of economic development, which was concentrated in service, real estate and rentier activities in Syria. Neither did new businessmen emerge in this sector during the conflict.

²⁵ Al-Modon (2016), 'Syrian industry loses 2600 billion SYP' (in Arabic), 11 July, <https://bit.ly/2PhFYOT> (accessed 2 March 2019).

²⁶ Damas Times (2019) 'Investments in Sheikh Najjar in the first three months reach 4 billion SYP' (in Arabic), 10 April, <https://bit.ly/2KKxNhu> (accessed 12 April 2019).

²⁷ Khaddour, K. (2017), "Consumed by War, The End of Aleppo and Northern Syria's Political Order," *Friedrich Ebert Stiftung*, 14-16, <https://bit.ly/2IMcQAJ> (accessed 28 April 2019).

²⁸ Adra Industrial City (2018) 'Description of Adra Industrial region, Rural Damascus' (in Arabic), 3 April, <https://bit.ly/2Iq1nql> (accessed 3 March 2019).

²⁹ Sputnik News (2018) 'The Syrian government has appointed industrial cities to revive its tired economy' (in Arabic), <https://bit.ly/2UEXyEp> (accessed 8 March 2019); Adra Industrial City (2019), 'Situation of Investment in Adra Industrial city' (in Arabic), <https://bit.ly/2GstAum> (accessed 10 March 2019).

³⁰ These projects were in food and crafts (373), chemicals (218), engineering (194) and textiles (62). Suleiman, A. (2019) 'In 2018, 847 new industrial establishments entered the production stage with a capital of 30 billion SYP and a license for 1950 establishments with a capital of 120 billion SYP,' *Industry News*, 3 April, <https://bit.ly/2IByZRx> (accessed 10 April 2019).

Manufacturing industry only witnessed a reconfiguration of positions of power between those who remained loyal to the regime and those who transferred their activities abroad.

Figures close to the regime consolidated their power

In a move largely seen as a reprisal against investors supporting the opposition or deemed not sufficiently supportive of the regime, at the beginning of 2014 the Ministry of Industry nominated new appointees to sit on the boards of the chambers of industry in Hama, Aleppo, Homs and Damascus, while many large manufacturers had simply left the country.³¹

Some personalities consolidated their power in terms of representation in official bodies, such as chambers of industry. Fares al-Shehabi, head of the Aleppo Chamber of Industry and a known supporter of the regime, was elected President of the Federation of Syrian Chambers of Industry in June 2012 and became a member of parliament in 2016. The al-Shehabi family had been listed among the top 100 Syrian businessmen by the Syrian Economic Magazine in 2009 and 2010. Al-Shehabi's father, Ahmad Shehabi, was a wealthy manufacturing industrialist. Moreover, his uncle, Hikmat al-Shehabi, was a close associate of Hafez al-Assad and a chief of staff in the SAA between 1974 and 1998. Fares Al-Shehabi and his family invested in food products, pharmaceuticals, real estate and banking but came under European Union sanctions early in 2011 for providing economic support to the Syrian regime. He remains one of the most important industrialists in Syria and represents the interests of Aleppo businessmen, who were badly hit with destruction. He has recently requested Aleppo to be classified a 'disaster city' in order for it to benefit from specific government policies, in particular exempting its businesses in Sheikh Najjar from any expenses and taxes for the years 2012-2016.³²

In Damascus, Samer al-Debs, a manufacturer close to the regime and vice president of the Federation of Syrian Chambers of Industry, also became a member of Parliament in 2012 and then president of the Damascus and Countryside Industrial Chamber in 2014. He owns several factories in the packaging field. In his various official positions, Al-Debs was able to lobby the government to pass measures in the interest of Damascus manufacturers. In exchange, a large number of Damascene manufacturers became vocal supporters of the regime in the media. They also supported it in other ways, notably by funding particular militias (monthly salaries and bonuses) and providing commodities needed by the regime.³³ At the same time, Debs's role in the capital Damascus is subject to and dominated by the influence of other much more powerful business actors, especially Muhammad Hamsho, who occupies multiple official positions³⁴ and is considered a very close associate of Maher al-Assad, Bashar's brother. The importance of Hamsho was notably reflected in his leading role in persuading Qaboun manufacturing industrialists³⁵ to transfer their activities to Adra Industrial city, despite their reluctance. On his part, Samer al-Debs was completely marginalised in this affair.³⁶

³¹ The Syria Report (2016) 'Syria's Manufacturing Sector in Dire Straits,' 19 July, <https://bit.ly/2Uo4NLR> (accessed 1 December 2018).

³² Al-Iqtisadi (2019) 'Fares Al-Shehabi' (in Arabic), <https://bit.ly/2TX1pHJ> (accessed 20 February 2019); Al-Alam TV (2016) 'Who is Fares al-Shehabi, candidate to the position of Prime Minister of Syria?' 13 July, <https://bit.ly/2KLZExJ> (accessed 20 February 2019).

³³ Al-Eqtsad (2017) 'Al-Sawah and Al-Debs, two Damascus businessmen striving to polish the system' (in Arabic), <https://bit.ly/2PhfKhf> (accessed 20 February 2019).

³⁴ He is currently secretary of the Damascus Chamber of Commerce, secretary of the Federation of Syrian Chambers of Commerce and a Member of Parliament.

³⁵ The Qaboun Industrial City contained 750 facilities. Enab Baladi (2018) 'Qaboun industrialists and Damascus Provincial department crisis continues,' 6 December, <https://bit.ly/2UF9rds> (accessed 2 February 2019).

³⁶ Kayali, M. (2018), *ibid.*

The departure of some big businessmen: a huge loss for the manufacturing sector

Between 2012 and 2018, Syrian businessmen in Egypt invested \$800 million in a number of projects, particularly in textiles, restaurants and cafes.³⁷ The most famous example of this presence in Egypt is one of Syria's most prominent manufacturers, Muhammad Kamel Sabbagh Sharabati, who was listed as one of the 100 most important Syrian businessmen in 2009 and who headed the Aleppo Chamber of Industry between 2005 and 2009. He left Syria in 2012 following his refusal to fund the regime's war efforts and after being accused of supporting the revolution. His factories in Aleppo were eventually burned. At the beginning of 2018, Sharabati was running four large plants under the name Fourtex or al-Roubaia Textile Company for Spinning, Weaving and Dyeing in Sadat City, an industrial zone north of Cairo, on a total area of 180,000 square meters. The Fourtex complex, inaugurated by Egyptian ruler Abdul Fattah al-Sisi, is one of the leading exporters to Africa and its value is estimated at \$200 million.³⁸

While the Syrian investors who transferred their activities to Egypt were mostly large manufacturing industrialists in the textile sector, those who established themselves in Turkey are mostly SMEs. According to official figures from the Union of Chambers and Product Exchanges in Turkey, in August 2018 out of a total of 42,217 joint ventures 7,972 had Syrian funds,³⁹ representing 19 percent of all joint ventures with foreign assets and about \$381 million in terms of investment since 2011.⁴⁰ The main areas of activity of Syrian-Turkish companies are nevertheless the wholesale trade, real estate and construction, while manufacturing represented only a small share. Many came from Aleppo city and province and maintained their trade connections in the northern regions of Syria and some even in northern Iraq.

Some other Syrian businessmen moved or transferred their activities to Jordan, most notably because of the proximity to the Syrian border and the security provided by the authorities. By the end of 2018, the number of Syrian companies registered at the Jordanian Companies Control Department amounted to 4,062. These were active in different fields, including the manufacturing sector such as in textiles and foodstuffs, and other economic fields like trade and real estate. At the beginning of 2018, the total value of Syrian capital poured into these companies amounted to \$273 million, the vast majority of this since 2012.⁴¹

Finally, a number of businessmen and manufacturers also fled to the United Arab Emirates, although generally not establishing any business activity. Manufacturers faced many difficulties in restarting their activities as the local conditions in the UAE were unfavourable, while other businessmen involved, for example, in the trade sector had more facilities. Imad Ghreiwati, who emerged as a significant businessman during Bashar al-Assad's era and headed the Federation of Chambers of Industry between 2006 and 2011-2012, travelled to Dubai in 2012. In 2017, the Assad regime seized the assets of a number of members of the Ghreiwati family, including Imad Ghreiwati and four of his siblings.⁴²

³⁷ Enab Baladi (2018) 'Government facilities repatriating expatriate investors to Syria' (in Arabic), 28 June, <https://bit.ly/2KJUWQY> (accessed 2 December 2018).

³⁸ Sharabati D. (2018) 'About Us,' <https://bit.ly/2ULqomr> (accessed 2 January 2018); Abd al-Hamid, Ashraf (2018) 'Fled from the hell of Assad. And opened the largest textile factory in Egypt' (in Arabic), *al-Arabiya*, 21 January, <https://bit.ly/2VcvRIA> (accessed 2 December 2018).

³⁹ The number is considered to be over 10,000 when the informal sector is included.

⁴⁰ Cetingulec, Mehmet (2018) 'Syrian businessmen succeed in Turkey,' *al-Monitor*, 8 November, <https://bit.ly/2IrEm6i> (accessed 10 March 2018).

⁴¹ Enab Baladi (2018), "Localisation of foreign investments in Jordan... Syrians are about to become naturalised," 2 January, <https://bit.ly/2KMqmpY> (accessed 20 March 2019).

⁴² Zaman al-Wasl (2017), 'Assad Regime Confiscates Ghreiwati Family Assets,' *Syrian Observer*, 13 October, <https://bit.ly/2Xn1Tsu> (accessed 21 December 2018).

2. New challenges for Syrian manufacturers

There does not seem to be any prospect of these manufacturers abroad returning in the near future. More broadly, the recovery of the manufacturing sector appears slow and difficult and could even worsen if nothing is done to tackle the challenges and obstacles expressed and faced by both manufacturers inside (including those who are close to the regime) and outside the country.

2.1 Direct costs of war

The war has greatly damaged manufacturing in Syria. First, as in all the other economic sectors, manufacturers are desperately short of manpower, mainly because of the mass departure of skilled and less skilled workers (dead, wounded, imprisoned or exiled). According to interviews with manufacturers, compulsory military conscription for men between the ages of 18 and 42 is also a key factor in the lack of sufficient labour, as many are hiding at home for fear of being arrested.⁴³ Young men and workers are also threatened by loyalist militiamen at checkpoints and made to pay bribes.

Second, the fall in the value of the Syrian Pound (SYP) has played an important role in the diminishing purchasing power of Syrians and the higher cost of living. Since the beginning of the war, the SYP has experienced massive depreciation, reaching an official exchange rate of 570 SYP to the US dollar at the end of April 2019, whereas in 2010 it stood at 47 SYP to the dollar. Combined with inflation, a general impoverishment of the population on a massive scale has led to a diminishing level of national consumption in general. The average estimated expenditure by a household of 4 or 5 individuals for them to have a decent life in Damascus in 2018 was around SYP 325,000 (around \$650) a month, while the highest civil servant salary in state institutions reached no more than SYP 100,000 (\$200).⁴⁴

Finally, higher costs of production are continuing to harm manufacturers.⁴⁵ The price of fuel oil, for example, surged tenfold between 2011 and 2015 and the price of a 200-litre barrel reached 40,000 SYP in January 2019.⁴⁶ The fuel crisis has deepened the difficulties of Syrian industrialists in these past few months, since an Iranian line of credit was halted in mid-October 2018 and not one oil tanker has reached the country since then. The country suffered a severe oil shortage in April 2019, notably as a result of the US decision in November 2018 to increase its pressure on Syria by announcing that it would seek to impose sanctions against any party (including shipping companies, insurers, vessel owners, managers and operators) involved in shipping oil to Syria. Manufacturers also faced extra-costs of transportation caused by the persistence of war economy practises at checkpoints. Some of them have denounced the practises of the regime's militias, as already happened in Aleppo in July 2017.⁴⁷

2.2 The consequences of sanctions

Manufacturers have also complained of the consequences of sanctions on their ability to produce, import particular materials and export. For example, the very broad definition of dual-use goods, meaning goods that can be used for both peaceful and military purposes, is very problematic, as it includes pipes, water pumps, spare parts for electrical generators and industrial machinery and many kinds of essential construction equipment. Specific licenses are needed for every transaction involving such goods, resulting in added costs,

⁴³ Skype interview with an Aleppo industrialist, 21 February 2019; Interview with a Damascus Industrialist, 1 March 2019, Beirut. Some company owners have reportedly thought of building dormitories in Adra to avoid the risk of their employees being arrested.

⁴⁴ Cited in Tishreen (2019), "Economic Hardships Push Syrian Families to the Edge," *Syrian Observer*, <https://bit.ly/2VOfclv> (accessed 3 April 2019).

⁴⁵ Skype interview with an Aleppo industrialist, 21 February 2019.

⁴⁶ Bowker, J. (2019) 'As War Winds Down, Syrians Contend with Frigid Temperatures and Fuel Shortages,' *Navanti*, 15 February, <https://bit.ly/2DiOrhP> (accessed 20 March 2019).

⁴⁷ Daher, J. (2017) 'Militias and crony capitalism to hamper Syria reconstruction,' *Open Democracy*, <https://bit.ly/2v94V7L> (accessed 20 February 2019).

financing difficulties and long processing delays.⁴⁸ The director of the General Organisation of Textile industries, Nidal Abd al-Fattah, for example, states that economic sanctions badly affect the textiles sector as it is not possible to import modern machines and spare parts for production lines.⁴⁹

Similarly, in the pharmaceutical industry, owners are nearly completely unable to import machines and replacement parts because of the sanctions, not to mention raw material from reputable sources to produce medicine. The pharmaceutical industry has suffered massive damage and destruction. Despite some slow recovery, around 76 percent of the factories were not producing at all by the end of 2014, which has led to a severe shortage of drugs and medical supplies in Syria and a significant rise in prices.⁵⁰ In February 2019, the prices of imported drugs, especially those classified as 'food supplements,' significantly increased once again, by nearly 80 percent.⁵¹ Efforts to rebuild the pharmaceutical sector are also being harmed by sanctions. The Ministry of Health has stated that it is unable to obtain reference pharmaceutical standards for American and European pharmaceuticals, which prevents it from evaluating the strength and quality of locally produced products.⁵²

Alongside these issues, the overlapping sanction regimes have created so much doubt and uncertainty about how to comply with all the measures that banks, exporters, transport companies and insurance companies have nearly completely refused to conduct business in Syria.

A possible future reinforcement of US sanctions has only increased the fears of industrialists. Some are even already suffering from this. For example, at the beginning of 2019 a German company cancelled the sale, which was contracted before 2011, of a machine estimated at 500,000 euros to a pharmaceutical company in Aleppo, because the owner of the German company was afraid of possible consequences in the US from the possible advent of new US Caesar sanctions.⁵³

2.3 Smuggling and Imports

Illegal smuggling of goods has long existed in Syria and the cronies of the Assad regime were its main beneficiaries in the 1980s, as during this period many goods were not allowed into the country. The subsequent liberalisation of trade in the 1990s and 2000s caused smuggling activities to decrease in some sectors. Moreover, the 2003 US invasion of Iraq ended Syria's direct involvement in various smuggling activities, especially of oil. However, other illegal trafficking and smuggling activities appeared in this period, for example drug trafficking surged, driven by new products and new routes, and transborder smuggling in Iraq recovered and intensified in the years following the invasion. In most cases, the Syrian government was not able to control or curb the new rise in illicit trafficking.⁵⁴ However, this type of illegal smuggling was not a threat to national manufacturing production during this period, unlike in the previous few years.

The spread of Chinese goods (both legally and illegally), and moreover Turkish smuggled goods, into the Syrian market has increased considerably during the past few years. Many manufacturers have several times publicly denounced the negative impacts of smuggling on local factories.⁵⁵ The main roads for smuggled goods come from Turkey, pass through Idlib, the Euphrates Shield Area and Afrin (through border crossings controlled by opposition armed forces) and then into areas controlled by regime forces through an important

⁴⁸ Human Rights Council (2018) 'Report of the Special Rapporteur on the negative impact of unilateral coercive measures on the enjoyment of human rights on his mission to the Syrian Arab Republic' <https://bit.ly/2UIuY4Y> (accessed 20 December 2018).

⁴⁹ SANA (2019) 'Unilateral, coercive measures are economic terrorism that badly affected industrial sector in Syria,' 6 February, <https://bit.ly/2UraMPY> (accessed 20 February 2019).

⁵⁰ Hamada, A. (2014) *ibid.* 75-76.

⁵¹ Enab Baladi (2019) 'Significant rise in prices of imported medicines in Syria' (in Arabic), 14 February, <https://bit.ly/2Lffmlg> (accessed 20 February 2019).

⁵² Human Rights Council (2018) *ibid.*

⁵³ Skype interview with an Aleppo industrialist, 21 February 2019.

⁵⁴ Herbert, M. (2014) 'Partisans, Profiteers, and Criminals: Syria's Illicit Economy,' *The Fletcher Forum of World Affairs*, Vol. 38:1, 73-74.

⁵⁵ Economy2Day (2018) 'Debs: The spread of smuggled and second-hand clothing led to the closure of 10 clothing factories per day' (in Arabic), 23 December, <https://bit.ly/2Pfe0QU> (accessed 29 December 2018).

network of traders who have contacts enabling them to pass the products through the army's various checkpoints. In 2018, Turkey exported USD 1,345 billion of goods (considered illegal imports by the Syrian regime) to Syria, according to the Turkish national statistical agency.⁵⁶

At the same time, manufacturing industrialists have also criticised the high level of legally imported products, which are mostly imported from countries allied to the Syrian regime. In January 2017, Iran granted the regime a new line of credit of USD 1 billion. The new loan went to pay for Syria's imports. Half was allocated to oil supplies and the other half to agricultural and industrial inputs, all of which had to be procured from Iran or through Iranian companies.⁵⁷ Chinese goods are, however, the most important challenge to local production as they are often cheaper, for example in the furniture industry. By 2017, China had become Syria's biggest trading partner. Chinese companies provided various equipment and raw materials to Syria, especially to Syrian manufacturing industrialists, because of the European sanctions.⁵⁸ The Russian products sold in Syria were mostly cereals⁵⁹ and wheat.

Trade, especially importing, has become a major source of lucrative business deals in the country because of the very low levels of economic production, the absence of regime investment and the need for specific goods like foods, pharmaceuticals and oil derivatives.⁶⁰

In newspapers, various economists and manufacturers have denounced the monopolisation and control of specific legally imported goods by a small number of businessmen and traders, accusing them of competing with and even destroying local products in the agricultural and industrial sectors. In 2018, two thirds of import licenses were granted for the import of materials essential for manufacturing, particularly oil derivatives, medicine and agricultural products, such as sugar, rice and flour.⁶¹

2.4 Closure of foreign markets

At the same time, on numerous occasions manufacturers have demanded the reopening of border crossings, especially with Iraq as it constitutes the main regional export market.⁶² In mid-March 2019 during a joint meeting with his Iranian and Syrian counterparts in Damascus, the Iraqi Army Chief of Staff, Lieutenant General Osman al-Ghanmi, announced the re-opening in the coming days of the border crossing between Syria and Iraq at al-Buqamal in Deir al-Zor, which is controlled by the Syrian regime.⁶³ However, at the end of April the al-Buqamal border crossing remained closed.

⁵⁶ The Syria Report (2019) 'Turkey Remains Key Syria Trade Partner,' 13 February, <https://bit.ly/2vglf6B> (accessed 20 February 2019).

⁵⁷ The Syria Report (2017) 'Iran Grants USD 1 Billion to Damascus,' January 24, <https://bit.ly/2GjNkz5> (accessed January 24, 2017).

⁵⁸ Euro News (2017) 'The Economic Costs of Syria's Civil War,' 17 March, <https://bit.ly/2AMjoHn> (accessed 19 March 2017).

⁵⁹ In 2018, for example, The General Organisation for Trade and Grain Processing concluded several contracts with local traders to supply 1.2 million tons of Russian wheat, at a cost of around USD 100 million, to prevent bread shortages in the country. (Damas Post (2019) "100 million dollar import of Russian wheat" (in Arabic), 23 February, <https://bit.ly/2GGLgRZ> (accessed 20 March 2019).

⁶⁰ Syrian Centre for Policy Research (SCPR) (2015) 'Alienation and Violence, Impact of Syria Crisis Report 2014,' UNRWA, <https://bit.ly/1E8TPwZ> (accessed 20 December 2018).

⁶¹ Mulhim, N. (2019) 'Obese Importers' and 'oil' importers: The government vows corrupt and crisis traders and promises transparency' (in Arabic), *Al-Ayam*, 2 February, <https://bit.ly/2Gttenw> (accessed 3 February 2019).

⁶² Ministry of Local Administration and Environment (2018) 'Only 7 percent of Arab and foreign investments in Sheikh Najjar before the crisis,' 5 September, <https://bit.ly/2UKyNXa> (accessed 20 March 2019).

⁶³ There are two other border crossings between Syria and Iraq. The al-Tanf crossing, which is controlled by the US-led coalition forces, and the crossing at Yaraibiya, which is under the control of the Syrian Democratic Forces, supported by the US.

A re-opening in October 2018 of the Nassib border, allowing access to the Gulf states and the Iraqi market through Jordan, was welcomed by manufacturers. From mid-October to 31 December, the value of exports through the crossing with Jordan amounted to 3,160 billion SYP (around \$63.2 million).⁶⁴

Levels of exports remain low and limited. The latest Damascus International Fair in 2018, for example, did not provide significant export opportunities, and 90 percent of the deals were limited to textiles, food and agricultural products. From 2011 to 2016, the overall value of exports decreased to about \$660 million. In 2017 there was a small increase to \$700 million, whereas before the war the value was around \$12.2 billion. Exports of manufacturing goods decreased considerably, for example exports of cotton, which was previously the most important export commodity after oil and phosphates and accounted for 20-30% of Syrian exports, fell from \$199 million in 2011 to \$10 million in 2015 and have ended almost completely in the past few years as a result of weak production.⁶⁵

3. Government policies: What is being done to meet the demands of large manufacturers?

In the past few years, the Syrian government has announced several political measures to try to partially alleviate the multiple challenges and economic difficulties faced by manufacturing industrialists, notably regarding the issues of smuggling and, to a lesser extent, trade. Syrian officials have also attempted to spur the return of Syrian manufacturers who left the country during the war in order to boost investment in the sector. These measures are, however, in conflict with the interests of some crony capitalists and the new economic elite networks linked to the regime.

3.1. Bringing back Syrian manufacturers from Egypt

The government and manufacturing industrialists in Syria have increasingly called on Syrian businessmen to come back to the country. Since 2017, government authorities have offered exiled Syrian manufacturers, particularly those located in Egypt, many incentives to return to Syria and invest in the country and/or to resume production in their facilities. These incentives have included: a reduction in customs duties on production inputs; rescheduling of any debt owed to state banks; the establishment of a permanent expo for Syrian goods at Damascus Fairground City and enhancing external expos in order to expand export markets; facilitating the importation of raw materials necessary to support manufacturing; and providing facilitations for manufacturing industrialists whose facilities have been damaged to enable them to resume production.⁶⁶ In 2019, the Minister of Industry has also established a committee composed of Fares al-Shehabi, Samer al-Debs and Labib al-Ikhwan, President of the Chamber of Industry of Homs, to try to persuade Syrian manufacturers who left the country to come back.⁶⁷

Most of these large manufacturers are from Aleppo, meaning that the great majority are from an urban Sunni background and the origin of their wealth bears little relation to ties with state institutions, but instead results from capital investment. In various meetings with Syrian officials, they have welcomed government offers but made additional requests. The most important of these demands were to create boards of directors for the industrial zones affected in Aleppo, to grant loans for additional reconstruction facilities and to reschedule loans (providing more time to repay them) for businessmen who had defaulted on repayments to Syrian banks. They have also raised several issues with regard to customs duties and other business regulations.

⁶⁴ Enab Baladi (2019) 'Since its opening. Three billion pounds worth of exports from Nassib crossing,' 9 January, <https://bit.ly/2KKNYUv> (accessed 20 January 2019).

⁶⁵ Suheil, F. A (2018) 'Syrian exports are rising slowly compared to what they have been since 2011,' *al-Hal*, 28 November, <https://bit.ly/2Unl0AU> (accessed 20 December 2018).

⁶⁶ SANA (2018) 'Khamis, Syrian businessmen in Egypt discuss means to activate investment in Syria,' 27 June, <https://bit.ly/2VPK6tD> (accessed 31 December 2018).

⁶⁷ Eqtsad (2019), 'Persuasion ... as a way to bring industrialists back to Syria!' (in Arabic), 10 February, <https://bit.ly/2Xoj5hC> (accessed 15 February 2019).

However, resistance existed among some sectors of the economic elite and some regime figures. Crony capitalists did not hesitate to criticise the government measures attempting to bring back Syrian manufacturers. In February 2016, a week after the Syrian Minister of Finance's visit to Cairo, the newspaper *al-Watan*, owned by Rami Makhlouf, published a commentary⁶⁸ strongly condemning the "Egyptian Industrialists" for their alleged arrogance and the fact that they conditioned their return to Syria on incentives provided by the government. The article recommended that they should pay back all their dues, including debt arrears and taxes. Similarly, in July 2018, the Governor of the Central Bank, Duriad Dergham, declared that he would only provide loans to those who stood by the Syrian regime.⁶⁹ The objective of these criticisms and attacks was most probably to scare off and pressurise these manufacturing industrialists by conveying a message that they would have to clearly state and show their support for the Syrian regime and submit to these crony-capitalists if they returned to Syria.

So far, there is no sign of a massive return of Syrian industrialists soon. As mentioned above, they invested important amounts of funds in Egypt and they still benefit from very good conditions there (fiscally and security-wise).⁷⁰ By contrast, these exiled businessmen (including those not opposed to the Syrian regime) consider that the conditions are not yet ready for their return. In February 2019, Khaldoun al-Muwaqa, director of the Syrian Businessmen's Union in Egypt, a separate business association close to the Syrian government, declared that despite the willingness of many manufacturing industrialists to return to Syria, solutions remained to be found and implemented.⁷¹ Ammar Sabbagh, an Aleppo manufacturer who resided in Egypt and who recently opened a new textile factory in Armenia, has explained that he had tried to restart his factory in Aleppo but that it had closed again: the production costs were too high and he could not compete with cheaper smuggled products.⁷² In March 2019, hundreds of ring-spinning factories closed in Aleppo too, as they faced raw material shortages, competition from imports, power outages and corrupt practices, according to Tishreen newspaper.⁷³

3.2. Smuggling and imports

Since the beginning of the uprising in March 2011, successive Syrian governments have announced various measures to curb the import of certain products and to refocus efforts on local production. In December 2018, Prime Minister Khamis laid down the basic pillars of a policy to substitute imports that would reduce the bill for goods that can be produced locally to the minimum and achieve self-sufficiency. In a study on the replacement of 27 of 40 items imported during 2016, a number of criteria were planned to reach this result, foremost of which was the identification of goods to be manufactured locally by the private sector based on their weight in the import bill and the identification of target sectors in line with the development trends in general manufacturing industry, moving towards the leading private sectors that have the potential to develop and grow.⁷⁴

However, these policies nurtured criticisms among some groups of traders threatened by the reduction of imports, who did not want to see their benefits diminish. In practice, little has been done while the interests of

⁶⁸ Hashem A. (2017) 'The Egyptian Industrialists' (in Arabic), *al-Watan*, 26 February, <https://bit.ly/2GwkA7Q> (accessed 1 December 2018).

⁶⁹ Enab Baladi (2018) 'Assad's Government Aims at Accelerating the Economic Cycle in Ghouta,' 20 July, <https://bit.ly/2TghJ9Z> (accessed 29 November 2018).

⁷⁰ In March 2017 following the visit of Syrian Minister of Finance to Egypt to meet the 'Syrian Businessmen Group – Egypt,' many of whom are manufacturers, the Egyptian regime responded by announcing its intention to establish an integrated industrial zone and other facilities for Syrian manufacturers in Egypt as a counter-initiative against attempts by the Syrian regime to re-attract them.

⁷¹ Industry News (2019), 'Call for another conference "your green open" another Al-Muwaqa. The return of Syrian industrialists from abroad requires solutions to their dilemmas in their homeland' (in Arabic), 26 February, <https://bit.ly/2ZjK1kd> (accessed 2 March 2019).

⁷² Emmar Syria (2019), 'A famous Aleppo industrialist opens a large textile factory in Armenia and explains why his industry is closed in Aleppo' (in Arabic), 8 March, <https://bit.ly/2vcl7nI> (accessed 10 March 2019).

⁷³ The Syria report (2019), 'Hundreds of Textile Factories Out of Work in Aleppo,' 12 March, <https://bit.ly/2VOg0XA> (accessed 12 March 2019).

⁷⁴ Industry News (2018) '27 commodities will be dispensed from being imported ... Shihabi: support export and provide operational claims and fight smuggling' (in Arabic), 20 December, <https://bit.ly/2VT5VJ1> (accessed 27 December 2018).

traders continue to prevail. Already in 2012, a decision to ban all imports that carried a tariff rate of more than 5 percent was quickly cancelled following an uproar among the local business community.⁷⁵ More recently in March 2019, with the support of a large group of traders and businessmen, Mohammed Hamsho was able to persuade the Prime Minister to cancel a government decree requiring importers to pay consular fees to the Ministry of Foreign Affairs and Emigrants (MFA) instead of to the customs secretaries of the Ministry of Finance. The MFA would have required importers to submit documents for the payment of the consular fee, namely an invoice and a certificate of origin authenticated by the Syrian embassy in the country exporting the products. This measure was a problem for most traders as a large majority import their goods to Syria from unknown sources or from a country not of origin, but across Lebanon and other Arab countries.⁷⁶

Regarding smuggling, the Government of Syria has recently established a comprehensive roadmap for a state free of contraband to be pursued throughout 2019. Manufacturers have, however, raised concerns about the efficiency and lack of credibility of the customs service, which is accused of being deeply embedded in corruption.⁷⁷ These concerns are reinforced by many media sources.

In March 2019, the Syrian newspaper *al-Watan* revealed that a customs official had embezzled several billion SYP before fleeing abroad.⁷⁸ A few days before, suppression by the Syrian pro-regime television channel *al-Ikhabaria* of an interview with Fares Shehabi, in which he denounced “traders” participating in the smuggling market, also demonstrated the sensitivity of the subject. Shehabi notably mentioned ‘Abu Ali Kheder’,⁷⁹ an important businessman with multiple investments in various projects, who he accused of imposing taxes on factories through the use of militias and of ruining the owners of plastics factories in Aleppo, together with smuggling various products from Turkey across border crossings. Together with pushing for the withdrawal of the video mentioned above, ‘Abu Ali Kheder’ was able to cancel a decision promulgated by the Minister of the Interior on 21 February 2019 ordering total halt to any dealings or contacts with him.⁸⁰

Similarly, in April 2019 it was reported that Rami Makhoul had officially established a shipping company to import various products from Lebanon to Syria in the near future. The goods to be imported would include clothes, electronic appliances, food, medicines, cosmetics, mineral water and many items not available on the Syrian market. Makhoul also has the objective of monopolising, or at least controlling, large sectors of the very profitable business in smuggled goods with the assistance of the Customs Department, by targeting some merchants involved in smuggling businesses.⁸¹

3.3. Encouraging investment and reconstruction

In early 2018, the government adopted a series of laws to encourage investment and reconstruction on industrial sites. Thousands of industrial and handicraft facilities have been restored in the Aleppo, Damascus and Homs governorates, while government institutions have restored services such as electricity, water and roads and all the services necessary for industrial cities.⁸²

⁷⁵ The Syria Report (2012) ‘Syria Restricts Furniture Imports in a Bid to Appease Craftsmen, Manufacturers,’ 2 February, <https://bit.ly/2VRQ7X5> (accessed 2 March 2019).

⁷⁶ Al-Iqtisadi (2019), ‘Economics... Hamsho who deserved thanks’ (in Arabic), 5 March, <https://bit.ly/2IES7Ox> (accessed 8 March 2019).

⁷⁷ Skype interview with an Aleppo industrialist, 21 February 2019; Interview with a Damascus industrialist, 1 March 2019, Beirut.

⁷⁸ Emmar Syria (2019) ‘A customs official disappeared after being exposed to corrupt files about billions of lira,’ (in Arabic), 6 March, <https://bit.ly/2lue9UH> (accessed 10 March 2019).

⁷⁹ His real name is Kheder Taher Ben. In addition to his investments in tourism, telecommunications and real estate, he owns a security company and has influential connections in the security services.

⁸⁰ Mrad, A.J. (2019) ‘Kheder Taher, the rising economist who forced the Syrian minister of the interior to retreat’ (in Arabic), 17 March, <https://bit.ly/2PgODTH> (accessed 20 March 2019).

⁸¹ Al-Nahas, S. (2019) ‘Makhoul Shipping company ... handling the smuggling market between Lebanon and Syria’, (in Arabic) *al-Modon*, 19 April, <https://bit.ly/2LbFbCL> (accessed 25 April 2019).

⁸² Ministry of Local Administration and Environment (2018), ‘Director of the city of Sheikh Najjar ... 215 billion total volume of investment and allocation of 159 industrial divisions,’ <https://bit.ly/2Djf8my> (accessed 15 October 2018).

Since then, various measures have been implemented to boost the sector. Manufacturers have been exempted from a construction license fee that was previously needed to start building a factory or expand an existing factory in an industrial city or zone.⁸³ The Government of Syria has provided financial subventions to assist the sector⁸⁴ and industrial cities.⁸⁵ Some facilities allow the import of some raw materials without tax or with lower tax. In addition, the Third Industrial Conference, entitled ‘Our industry is our strength,’ was held in Aleppo in November 2018 and led to a series of recommendations raised by manufacturers. In January 2019, the Council of Ministers officially adopted the recommendations of this conference, which constituted the main pillars for the re-establishment of the manufacturing sector as an important actor in the national economy. These measures include addressing the cost and availability of raw materials and energy, building production lines, supporting exports, and providing facilities, incentives, subventions, exemptions and marketing and exhibitions locally and abroad.⁸⁶

In February 2019, the Minister of Industry, Mohammed Maan Zain al-Abidine Jabba, and the Director of the Industrial Bank, Dr. Omar Sidi, also announced that manufacturing industrialists and craftsmen would be provided with special loans and facilities to promote national production. The total value of the loans to be provided was estimated at SYP 1 billion for a maximum of 1-10 years, with, however, a high interest rate ranging between 10 and 12 percent, which constituted a significant obstacle for a great majority of SMEs.⁸⁷ In 2018, the Industrial Bank provided 59 loans with a total value of SYP 732 million (around \$1,464 million), which was a very small figure for a whole year.⁸⁸

In March 2019, the government issued a decree allowing manufactures to import fuel and oil products by land and sea for three months. The decision came in response to demands from manufacturing industrialists for their production needs to be met.⁸⁹ In addition to this, the regime also continues to purchase oil from the regions controlled by the Syrian Democratic Forces (SDF) through the Qaterji company, which is under European sanctions, whether through official channels with the Kurdish authorities of the Self-Administration or through the smuggling market. The country currently needs 136,000 barrels a day, while, according to statements made in the pro-regime newspaper *al-Watan*, the Ministry of Oil can only secure 24 percent of the actual needs.⁹⁰

These measures have all been welcomed by manufacturers, especially the large ones, while smaller actors have criticised their partial implementation and lack of cohesion.⁹¹ However, they are generally not enough to resolve the deep structural problems faced by the manufacturing sector, particularly by SMEs, or challenge the more macro-economic and political domination of elite networks linked to trading activities.

⁸³ Enab Baladi (2018) ‘Decree exempting industrialists from fees for renewing building permits’ (in Arabic), 27 May, <https://bit.ly/2Ez9eif> (accessed 30 May 2018).

⁸⁴ In 2018, the Ministry’s contribution of the investment budget to the industrial cities amounted to SYP 3 billion (around \$6 million); the subsidies provided by the Reconstruction Committee amounted to 909 SYP million (around \$1,818 million); the subsidies provided by the proceeds of Legislative Decree 37 amounted to SYP 1.8 billion (\$3,6 million). Suleiman, A. M. (2018), ‘SYP 6.5 billion net investment income for industrial cities during 2018,’ *al-Watan*, 30 December, <https://bit.ly/2V7D7iU> (accessed 3 January 2019).

⁸⁵ In 2018, the Ministry of Local Administration and Environment provided more than 12.5 billion SYP for industrial cities under construction and implementation.

⁸⁶ Economy2Day (2019) ‘Industrialist wishes the government to support industrialists regarding the prices of oil derivatives’ (in Arabic), 9 February, <https://bit.ly/2PVAtaG> (accessed 15 February 2019)

⁸⁷ Industry News (2019) ‘Through the “Ministry of Industry” ... These loans and Industrial Bank facilities’ (in Arabic), 2 February, <https://bit.ly/2IGYLny> (accessed 24 February 2019).

⁸⁸ Mustafa, M. R. (2018) ‘Industrial Bank granted 59 loans worth 732 million lira’ (in Arabic), *Al-Watan Online*, 27 December, <https://bit.ly/2v9zrym> (accessed 31 December 2018).

⁸⁹ Tishreen (2019) ‘Manufacturers allowed to import fuel and diesel’ (in Arabic), 3 March, <https://bit.ly/2XrKu25> (accessed 15 March 2019).

⁹⁰ Mohamed, M. (2019), ‘The fuel crisis: SDF pursuing the smugglers ... After the regime stopped its "cooperation"’ (in Arabic), *al-Modon*, <https://bit.ly/2V1mO86> (accessed 28 April 2019).

⁹¹ Mulhin, N. (2019), ‘Tax exemptions for damaged facilities: Industrialists accuse the government of "giving on one side and taking from the other.”’ *Al-Ayyam*, 6 April, <https://bit.ly/2XX0olr> (accessed 20 April 2019).

Conclusion

The situation of the manufacturing sector is very far from being stable and on its way to recovery despite the reopening of facilities and a higher level of production. The statements of support and government measures regarding the national manufacturing industry are not enough to reassure the vast majority of manufacturers, especially SMEs. They face two main macro-challenges.

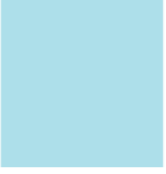
First, the level of destruction in the industrial sector, and particularly in manufacturing, is very high. In this perspective, the deepening of wide general sanctions against Syria should probably be re-thought and remodelled because they will most probably continue to harm large sectors of the population and society, including manufacturing.

Second, the war has deepened the speculative commercial economic model which is present throughout the region, characterised by investment in short-term profit-seeking, mostly in trade, real estate and service sectors to the detriment of the productive economy, including the manufacturing sector. It has allowed the emergence of new business actors, often with links with the security services, involved in various sectors of the war economy and increasingly seeking rapid returns on investments⁹² The economic and business interests of these new actors often contrast with the possibility of re-boosting the manufacturing sector. This process had already started at the beginning of the 2000s with the liberalisation of the Syrian market, but traders have significantly increased and deepened even more their domination of the Syrian economy in these past few years, notably at great expense to manufacturers.

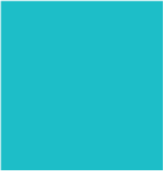
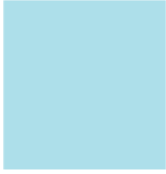
Large manufacturers have on several occasions expressed criticisms of this situation, despite them supporting the regime and government measures to alleviate their difficulties. Similarly, calls made by some Syrian officials and large private manufacturing industrialists to deepen the process of privatisation of the public industrial sector through a Public Partnership Privatisation model are also a trend which endangers the manufacturing sector as a whole. This could allow a new investment market for large private manufacturers who would invest in profitable public manufacturing sectors, but the ones with deficits would be progressively abandoned by the state. It would most probably negatively affect the situation of workers, as in the public sector they generally benefit from various types of social insurance.

A recovery and development of the manufacturing sector could be a key element in stability for the economy and more generally for the country. It would boost local production and therefore partially decrease the pressure on the SYP to fund imported goods. Similarly, it could slightly diminish Syria's reliance on products imported from Iran, Russia and other foreign countries, which has massively increased in these past few years. It could also encourage work alternatives to opportunities in the war economy. The current model of recovery is, however, far from guaranteeing a rebirth of the sector in the near future.

⁹² Daher, J. (2018) 'The political economic context of Syria's reconstruction: a prospective in the light of a legacy of unequal development,' *European University Institute*, <https://bit.ly/2GtYYsq> (accessed 20 January 2019).



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