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POLICY

BRIEF



Middle  
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## *The Syrian Presidential Palace Strengthens its Concentration of Power: The Rift Makhlouf-Assad*

*Joseph Daher\**

### **Introduction**

The two latest videos released by Rami Makhlouf, Bashar al-Assad's cousin, have resonated like an earthquake for analysts and commentators on Syria.<sup>1</sup> They confirm mounting tensions between Rami Makhlouf and Bashar Al-Assad's clan since at least the summer of 2019. On several occasions in the past few months the Syrian authorities have taken new measures to freeze Makhlouf's assets.<sup>2</sup> The most important of these was probably the government's claim in mid-April of at least 130 billion SYP in unpaid taxes and fees from Syriatel,<sup>3</sup> the crown jewel and cash cow of Rami Makhlouf's economic empire. Syriatel is most probably the largest private company in Syria, with around 6,500 employees, assets reaching 242.3 billion Syrian pounds

1. Rami Makhlouf's father Mohammed is a brother of Bashar al-Assad's late mother, Anissa. The family has been powerful in Syria since the 1980s and is seen as playing the role of treasurers for the regime.

2. His personal assets and those of some of his companies were frozen in December 2019 and mid-March 2020. A shipment from one of his companies was seized in Egypt in April 2020 because it was transporting drugs.

3. The Ministry of Communications and Technology published an official note stating that it was claiming SYP 233.8 billion, around USD 180 million at the black-market exchange rate, from Syriatel and MTN-Syria. The ministry declared that the fee was due in order to pay for licences granted to the two companies in 2014.

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(SYP) at the end of 2019, around USD 264.3 million at the time, and a market share of around 71 percent.<sup>4</sup> It has yet to pay the bill, while arrests of senior Syriatel employees, including managers and technicians, have continued since Rami Makhoulf aired the first video on 30 April.

## The Redistribution of Shrinking Rents Within the Ruling Circle

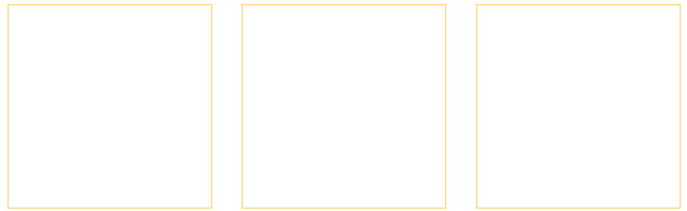
In the pre-war decade, the centres of power within the regime were concentrated in one family and its clique (namely the Assad-Makhoulf family), demonstrating the patrimonial nature of the regime's apparatus. Rami Makhoulf was a key pillar in the centre of power in Syria, in other words a powerful member of the inner circle in the Presidential Palace led by Bashar al-Assad, together with the president's brother Maher and wife Asma. Before the war, the roles of each personality around Bashar al-Assad in the Presidential Palace were relatively clear, or at least each had specific domains of intervention, despite all of them meddling in economic affairs.

Rami Makhoulf had a central role in the Syrian economy, including by developing and expanding networks of businessmen directly connected to or dependent on the regime to accumulate capital while operating as the family's banker. He was also involved in charity through his al-Bustan Foundation. He symbolised the mafia-style process of regime-led privatisation pursued through the neoliberal policies of the 2000s. His business empire was vast and included telecommunications, oil and gas, construction, banks, airlines and retailing.

Maher al-Assad had been the de facto leader of the Fourth Armoured Division since the 1990s. He was the leading personality in charge of the defence of the Presidential Palace and the regime. Through this position, he also managed economic networks and had connections composed of groups of businessmen acting on his behalf, in particular Muhammad Saber Hamsho, one of the most important Syrian businessman in the country and the secretary general of the Damascus Chamber of

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4. MTN, the other telecommunication company in the country, controls the remaining 29 percent. Before 2011, the market was split approximately 55/45 in favour of Syriatel. The Syria Report, "Syriatel, MTN Post Growth," 19 February 2020, <https://bit.ly/2STAQWc>



Commerce and of the Federation of Syrian Chambers of Commerce.<sup>5</sup>

Asma al-Assad, the President's wife, acted as the 'modernist face of the regime' and tried to symbolise the so-called 'reformist' trend within the Syrian regime through her involvement in charity and her active role in the creation of the Syria Trust for Development and other Government-Organised NGOs which attracted important sources of foreign funding. The First Lady's activism in the association field served to establish new corporatist structures to satisfy emerging social groups and to tie them to the regime by providing them with both material (employment) and moral (doing good) benefits. These contributed to creating new networks of clienteles to broaden popular support for the regime by giving it a more liberal image.

All these actors have participated in various ways in the war for the survival of the regime. However, the 'attributed' roles mentioned above have witnessed increasing changes with an expansion of their economic influence. In the early years of the conflict, Rami Makhoulf mobilised his various networks, which served the regime and bankrolled security services and militias to repress the protest movement and fight the opposition armed forces. He also developed some of his economic activities, especially in trade and smuggling,<sup>6</sup> and his charity services through the establishment in mid-2018 of the Nour Microfinance Foundation, the mission of which included the provision of financial services to low-income individuals who lacked collateral for bank loans.

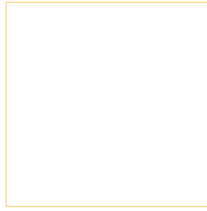
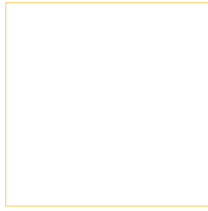
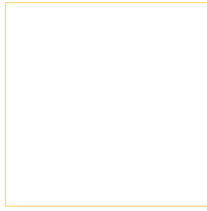
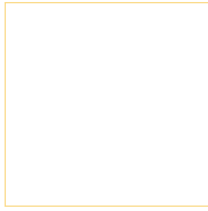
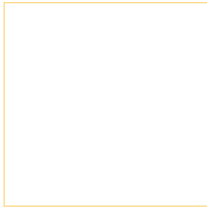
Following its deployment in many areas, the Fourth Brigade led by Maher al-Assad has notably increased its political and economic roles through its security bureau.<sup>7</sup> In the past few years, the Brigade's economic

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5. A few years before the uprising in 2011, he became a powerful political and economic figure as a result of his association with Maher al-Assad, following his marriage to Maher's wife's sister.

6. Makhoulf wanted to dominate the smuggling businesses by controlling large sectors of it with the assistance of the Customs Department. Al-Nahas "Makhoulf Shipping Company ... Handling the smuggling market between Lebanon and Syria" (in Arabic), *al-Modon*, 19 April 2019, <https://bit.ly/2LbFbCL>

7. Ayman Al-Dessouky, "The Economic Networks of the Fourth Division During the Syrian Conflict," Research Project Report, (Florence: European University Institute, Middle East Directions, Wartime and Post-Conflict in Syria, January 2020), <https://bit.ly/35LacnI>



activities have increased significantly and its network of businessmen has risen, with the emergence of new figures such as Wassim Qattan and Abu Ali Khodr.

To a lesser extent, Asma al-Assad’s economic role has continued to grow since 2011 through the attribution of some business contacts to individuals associated with her, such as her cousin Muhannad al-Dabbagh<sup>8</sup> and her father’s cousin Tarif al-Akhrass. According to rumours, Samer Foz has also become close to Asma.<sup>9</sup> Foz, the owner of the Aman Group before 2011, has benefited massively from government contracts and has expanded his activities far beyond importing and trading grain and building materials.<sup>10</sup> In April 2019, Foz was targeted by the newspaper al-Watan, owned by Rami Makhoulf, for obtaining a loan from a Syrian bank in violation of the regulations established by the Central Bank of Syria.<sup>11</sup> This episode was the first sign of public discontent indirectly expressed by Makhoulf against a new and rising network of businessmen linked to the Presidential Palace, which he most probably perceived as encroaching on his field.

Although some sectors of the informal economy, especially smuggling and various illegal activities, have been boosted by the dynamics of the ‘war economy’,<sup>12</sup> economic opportunities and resources within the country have gradually diminished. The destruction of

wide sectors of the economy led to a dwindling of GDP from \$60.2 billion in 2010 to around \$17 billion in 2017. Since then, state expenditure has mainly been focused on food and fuel subsidies and on wages and pensions, with almost no investment expenditure despite official budget announcements.

In this context, competition for reduced sources of rent has therefore increased among the inner circles of the regime. These sources of rent are not only a way to accumulate capital but also political influence through the construction and expansion of patronage networks. Since summer 2019, the Presidential Palace has deepened its interventions and control in the management of two key entities in Makhoulf’s power network: Syriatel and the al-Bustan Charity Foundation. In October 2019, Bashar al-Assad appointed a palace official as director of Syriatel as part of a so-called ‘anti-corruption campaign,’ while some sections of the management of the company believed to have been transferred to individuals connected to the Presidential Palace. In September 2019, on instructions from the Central Bank the Real Estate Bank ordered all its departments and branches to freeze all the accounts held by Syriatel and any company or entity affiliated to it. In summer 2019, the al-Bustan Charity Foundation suffered a similar fate, with an executive position being filled by a manager associated with the Presidential Palace, as were some positions on its board of directors, including the accountant,<sup>13</sup> while the military wing of al-Bustan was dismantled and its members integrated into the regime’s military forces, including the Fourth Division.

The rift between the Assad clan and Rami Makhoulf therefore results from an offensive by Assad’s clan, the dominant actor in the centre of power, to concentrate all the power in its hands, including in the economic field, which was Makhoulf’s traditional realm prior to the war. This campaign takes place as an economic competition over the remaining sources of rent.

### Rami Makhoulf’s Limited Nuisance Capacity

Bashar al-Assad’s pressure on Rami Makhoulf is, however, most probably not intended to destroy him, as it would

8. Muhannad al-Dabbagh partially owned the Takamol Holdings company, which was notably responsible for managing the smart card system. However, in Mid-April 2020, the Minister of Domestic Trade and Consumer Protection announced that the private company would no longer be in charge of the smart card system following harsh criticisms of the way the government dealt with it and the distribution of bread in Damascus and Rural Damascus.

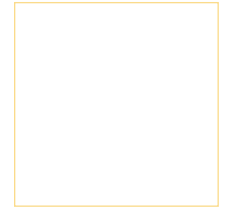
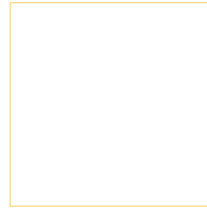
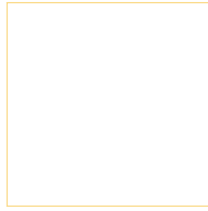
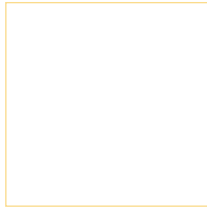
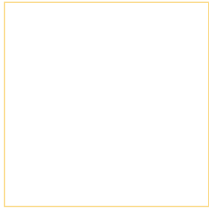
9. Caroline Hayek, “When Makhoulf Plays the Alawite Card Against ... Assad” (in French), *Orient le Jour*, 4 May 2020, <https://bit.ly/3bgt3rC>

10. His business activities include aviation, cables, steel, sugar, car assembly and distribution, hotel management, real estate development, pharmaceuticals and even banking. He has also founded his own charity association, which carried out projects in Latakia and its countryside.

11. Al-Modon, “Why did Rami Makhoulf declare war on Samer Foz?” (in Arabic), 5 April 2019, <https://bit.ly/2SUyuuK>

12. Joseph Daher, “The Political Economic Context of Syria’s Reconstruction: A Prospective in Light of a Legacy of Unequal Development”, Research Project Report, (Florence: European University Institute, Middle East Directions, Wartime and Post-Conflict in Syria, December 2018), <https://bit.ly/2wQ43Jn>

13. In the summer 2019, the former director of the al-Bustan Foundation, Samer Darwish, who is close to Rami Makhoulf, was investigated on corruption charges by the security committee in the Presidential Palace.



cost the regime politically and economically, but to push him to submit completely to the power and decisions of the Presidential Palace. This includes sharing sources of rent with other businessmen connected to and completely submitted to Bashar's inner circle. In the past few years, Syria has witnessed the rise of new businessmen who owe their fortunes and accumulation of capital to their contact with the Presidential Palace.

Unlike Rifaat Al-Assad in 1984, Rami Makhoulf has no tanks or whole military branches under his command. He has neither the means nor the intention to overthrow Bashar al-Assad. His recent public interventions were, however, a blow for the President. He has influence through his different networks, including in certain security services and militia groups, which he could use to create instability in the country.

Makhoulf can seek to mobilise a section of the regime's Alawite base, which has benefited from donations and activities in the coastal areas by the al-Bustan Foundation, Syriatel and his other companies. In his videos, Makhoulf mentioned several times the assistance he provided to the poor of his community, adding that the freezing and the capture of his business resources and possessions would harm the people he aided, particularly "the poor and hungry" – a statement he already made in February 2020.<sup>14</sup> His focus on this issue is a way to put pressure on Bashar al-Assad by blaming him for the potential damage to this particular popular base of the regime through the state's actions against him and his companies. Thus, Rami Makhoulf is trying to play on the community string by alleging a bias against him as an Alawite while corrupt Sunni businessmen are not targeted.<sup>15</sup> Makhoulf could also try to activate the network of employees of his

14. According to Makhoulf in a statement published in the Lebanese newspaper *al-Akhbar*, 75 percent of his companies' profits have been given to humanitarian organisations and charity associations for the benefit of the Syrian population. Rami Mohammad Makhoulf, "Makhoulf Responds: the documents prove that there is no violation and the campaign's aim is to discredit him" (in Arabic), *al-Akhbar*, 6 February 2020, <https://bit.ly/2yGTmdt>

15. These implicit allegations were made quite clear in comments on Facebook by one of his cousins, who wrote that "unlike the 'neo-Ottoman' businessmen (in other words 'Sunni businessmen') who smuggled their money out of Syria, Rami Makhoulf kept his money in the country and gave it to poor families and to soldiers and militiamen who have fallen as martyrs," Soshals. "After the coup against Rami Makhoulf, an Alawite writer incites against Asma al-Assad and describes her as an Ottoman Turkman" (in Arabic), 3 May 2020, <https://bit.ly/2Ldsbtu>

companies, of which there are estimated to be around ten thousand in the country,<sup>16</sup> and his business partners. They could react in his favour if they see their employment, business partnerships and investments threatened as the regime coerces Makhoulf more and more.

However, beyond his direct employees, business partners, charity beneficiaries and more largely the Alawite community, Makhoulf's ability to mobilise seems limited. His image as a business tycoon who has accumulated huge profits and pursues a luxurious lifestyle while the majority of the population are living in poverty and suffering from the war does not help his cause and has created rising criticisms against him and other business figures. This was symbolised in September 2019 in a song denouncing corrupt businessmen such as Samer Foz, Rami Makhoulf, Abu Ali Khodr and the Qaterji brothers which circulated widely among the pro-regime popular base.<sup>17</sup>

In this situation, Syria's closest allies, Russia and Iran, have so far been somewhat absent from this rift and have not officially reacted or intervened. However, it is highly likely that both would rather intervene on the side of Assad's clan against Makhoulf if the latter tried to create instability in the country through his various networks. Russia will most probably support Bashar al-Assad and the symbolic rule of the state institutions in order to guarantee a certain form of stability in the country, while Maher al-Assad is known to be close politically to the Iranian decision makers. Moreover, it was Bashar al-Assad who transformed the relationship with Lebanese Hezbollah from a tactical and temporary alliance, as it had been under Hafez al-Assad, into a deep strategic alliance. Following his arrival in power in 2000, both politically and militarily he deepened Syria's collaboration with the group, which favoured Iranian geopolitical interests in the region. In contrast, Rami Makhoulf lacks this level of direct connections and/or deep relations with the ruling strata of these foreign actors, which is another significant disadvantage for him in the rift with the Presidential Palace.

16. "Makhoulf Responds", *al-Akhbar*, *ibid*.

17. On 6 May 2020 the song was re-posted on a pro-regime Facebook page called "Detecting Dawa'ish Corruption Inside Syria" <https://bit.ly/3dEv6Hx>



## Conclusion

Syria is not witnessing a new campaign against corruption reclaiming due taxes as is claimed by official medias. In mid-2014 Syriatel, and the other telecommunication company in the country MTN, were awarded new 20-year freehold licenses which took effect on 1 January 2015 by the Syrian Telecommunications Establishment. Each company paid a one-off fee of SYP 25 billion for these licenses and received a general reduction of the taxes imposed on it for the next three years, from 60 percent in 2014 to 20 percent by 2018.<sup>18</sup> This agreement entailed massive losses in state revenue while increasing the profits of the two companies.

This rift is not a consequence of Russian pressure on the Syrian regime to accumulate more wealth and fill the state coffers. Moscow has instead characterised itself by its passivity and non-involvement in this rift, while large swathes of Makhlouf's wealth have been smuggled or are based outside the country and could most probably not be recovered by the authorities.<sup>19</sup>

The dynamics of this rift have some similarities with the actions taken by Mohammad Ben Salman against key pillars of the Saudi Kingdom at the end of 2017, which marked a turning point in the traditional patrimonial system.<sup>20</sup> He targeted key royal personalities, four ministers and dozens of other officials and prominent businessmen. The sons of all four key men in the House of Saud who comprised the core of the family over the previous four decades were targeted. Mohammad Ben Salman was trying to bring an end to this factionalised state and consolidate power in his own hands.

This new rift reflects the determination of Assad's inner circle to concentrate all the power in its hands even more, to the detriment of even family members and key pillars in the regime's centre of power. A most probable way

out of this rift is for Rami Makhlouf to totally submit to the Presidential Palace and its decisions, including by Syriatel paying the amount due to the state. This solution is most likely to not stop at this point but also include a progressive transfer of Makhlouf's key assets to Assad's inner circle in order to end any form of (political and economic) autonomy he was able to build through his companies and networks. In this way, the Presidential Palace would come out of this conflict strengthened.

18. The Syria Report, "Syrian state to give up billions to the benefit of MTN and Syriatel," 6 January 2015, <https://bit.ly/2WnqMXm>

19. The Panama Papers revealed that Rami Makhlouf was able to hide his assets abroad and continue to trade and invest through its offshore front companies. His total fortune is estimated at between \$5 and 15 billion.

20. In this system, the ruling family divided up control of the state and its oil rent. They used the money to pay off a vast network of businesses and patrons. This produced a precarious balance of power between family factions and their clientelist networks.



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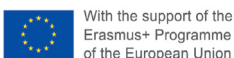
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