

Assad's Economic Desperation Causes Cracks in Syrian Regime

Featuring Nicholas Heras, John Dunford, and Michael Land



JUNE 12, 2020

The Syrian regime's desperate financial situation has led President Bashar al-Assad to persecute his own cousin as a pretense to seize his financial assets. The cousin in question, Rami Makhlof, has been a key supporter of the regime for years and is one of Syria's richest men. His downfall demonstrates the regime's dire need to obtain resources as it fights to keep control over territory in western Syria. In this episode of Overwatch, Nick Heras, John Dunford, and Michael Land discuss the implications of Assad's fight with Makhlof and consider the role that Russia and Iran may play in a reshaped Syrian regime.

Jacob Taylor:

This is Overwatch, a podcast by the Institute for the Study of War. My name is Jacob Taylor. President Bashar al-Assad of Syria is in conflict with a powerful cousin named Rami Makhlof. Amid this palace entry, unrest is bubbling up in Daraa Province and threatens to evolve into a full blown insurgency. To make matters worse, a new round of U.S. sanctions are slated to enter effect this month. These challenges collectively constitute the most credible threat to Assad's rule in several years. ISW Middle East Security Program Manager Nicholas Heras and Research Assistants John Dunford and Michael Land are here with me today to discuss these challenges and what they may mean for the Assad regime. Nick, John, Michael, thank you for being here.

John Dunford:

Thanks, Jacob. Great to be here. Thanks for having us.

Jacob:

Let's start with Rami Makhlof. Nick, can you give us a little bit about Mr. Makhlof and his role in the regime?

Nicholas Heras:

Sure. Well thank you, Jacob. Rami Makhlof, is Bashar al-Assad's first cousin through Bashar's mother. And he's wildly considered to be the richest man in Syria due to his corrupt control over major segments of the Syrian economy since the early 2000s, especially telecommunications companies and duty free trade zones at Syria's borders. Makhlof has been a pivotal actor in shoring up support for the regime throughout the civil war as he financed the mobilization of pro-regime militia networks that helped consolidate regime control in contested areas of western Syria. He also runs a series of charitable foundations that provide essential support to loyalist communities throughout regime held areas, support for injured pro-regime fighters and also support for the families of pro-regime fighters that have been killed in battle.

Jacob:

Nick, you say he was pivotal in the Syrian Regime, so what has changed?

Nicholas:

Well, for the better part of the last year, the Assad regime has been turning on one of its most dedicated members, which is Rami. What's happened is that Rami, since August 2019, has been the target of an intense campaign by the Syrian government and its state security services targeting his businesses, demobilizing the militia network that he controls, assessing billions of dollars of taxes on Rami and his businesses, which prior to this situation would've been unheard of, and the arrest of many of his loyal operatives and business managers. And most recently, actual state action to formally seize his business. This is a major escalation against one of the regime's former core members.

Jacob:

And what is motivating this crack down on Rami? If he was so useful to the regime, why undermine him so aggressively?

John:

Hi, Jacob, John here. The case of Rami Makhoul is very interesting. And as Nick noted, it's not entirely new development. But I think in order for us to discuss what is happening with Assad and Makhoul, we need to situate it within the current economic situation in Syria. Over the past many months, the Syrian economy has declined due to sort of a host of different reasons. So continued U.S. and European sanctions on regime entities, major economic downturn in Lebanon, the Lebanese and Syrian economy are very much intertwined. And so, economic downturn in Lebanon is having an effect in Syria as well as just general corruption and mismanagement of the economy and the state's funds.

So to sort of illustrate where the economy is now. In the first week of June, we actually saw the Syrian pound drop in value to almost 3000 Syrian pounds per one U.S. dollar. To situate this, in 2011, that same exchange rate was about 50 Syrian pounds to one U.S. dollar. Because of this, it's becoming near impossible to afford commodities and goods in regime held Syria. And so, all of these economic crisis is happening, the billionaire Makhoul and Syrian President Bashar al-Assad are having a very public fight over hundreds of millions of dollars in a public forum, which is unprecedented really in the war's history.

Michael Land:

Hey, this is Michael. This fight also really undermines the regime's image. The Syrian people are acutely aware that the economic situation in the country is extremely poor and this fight simply underscores that. And it also paints the regime as simultaneously cash strapped and financially incompetent while dealing with vast sums of money that are something that the average Syrian really, uh, can't possibly imagine in their day to day life.

Jacob:

So fundamentally, this is a money making effort by the Syrian Regime?

John:

Yes, Jacob. I think that is a fair way of putting it. So as Nick had noted before, we've seen since August 2019 the regime go after Makhoul and other prominent businessmen within the pro-regime business community. This has taken the form of the regime seizing assets of different companies as well as some of these prominent business figures. Rami even went public in February within Al Bhed, in a Lebanese newspaper, as he tried to distance himself from some of these charges, while also claiming that he is willing to pay the regime the money before those previous charges.

And so again, the regime is seizing this money at the same time as the economy is failing, and Assad is looking for a revenue source. And for Assad, it likely looked like one way to generate money would be to go after some of these businessmen and take some of their assets to help fund the state's activities.

Jacob:

Y'all mentioned that this tension has been going on for a while. That the regime has been going after Makhoul since 2019. Did something change recently that escalated things further?

John:

Yes. So the recent notable escalation started in late April, in early May, when Rami Makhoul began posting video

statements in response to the regime's charges against one of his largest companies. Makhlouf has been a very private individual throughout the war, and the regime also tends to operate in a way that everything is kept in house, making it difficult to tell exactly what's going on behind closed doors. So Rami going public through Facebook and posting long videos explaining sorta his side of the story was a significant escalation.

Now, this was in response to a new series of charges that centers around one of Makhlouf's most important companies, Syriatel. Syriatel is one of the two largest telecommunications companies in Syria. And both Syriatel and that other company were charged with tax evasion and fined. Now the other company was quick to agree to work with the regime to pay it off, and while Makhlouf has stated a willingness to pay the fines, he argued that he would do it over time and also claimed that the regime was trying to force him to step down from his position in Syriatel.

Makhlouf during his videos accused Assad's advisors of leading the charge against him. And also implicitly threatened the regime with economic downturn if Assad's campaign against Makhlouf did not end. Makhlouf also was signaling both to his own support base within the Alawite community, and the rest of the pro-regime community, by saying things like all of his money goes to charitable causes. And also took a very religious overtone in the speeches he was writing and in the videos he was sharing. Again, trying to signal to his base and trying to drum up support for himself against Assad.

Jacob:

Where do things stand right now, John?

John:

So as of right now, Makhlouf and the telecom's authority have released several statements back and forth against each other over the past several weeks. The regime has frozen Makhlouf's assets, uh, they've placed a travel ban on him, so banning him from leaving Syria. And they've also placed a judicial guardian to oversee Syriatel. Meanwhile, intelligence services are arresting Makhlouf's employees. And so this situation is far from over, but Makhlouf is in a very difficult spot and the economy continues to deteriorate. And as Makhlouf becomes more public, we are seeing the Syrian pound continue to devalue.

Jacob:

Understood. So separate from the Syrian Regime extracting money essentially from Makhlouf. Who benefits from his downfall in a political sense?

Nicholas:

Well, Jacob, this is Nick here. To build off of what John said, um, you know it would seem that Bashar's benefactors Russia and Iran, are not completely aligned in how they are seeking to consolidate regime control over Syria. So we might see in this, in this sort of Rami Makhlouf saga, sort of tip as to some of the future potential challenges that might develop between the Russia and Iranian relationship, and how they manage to the pro-regime faction, so if you will, the Assad alliance. You know, we know that both Russia and Iran want to extract profit from what's left of Syria's resources and to make money off of Syrian reconstruction, assuming that happens.

Rami was a powerful player in the regime. Control over a lot of profitable assets. He's got a popular base within the Alawite community, which has been vital to keeping the regime in power and to serve as most of the foot soldiers of the inner core of the regime's most loyal forces. And you know, Rami had a stand in militia network that was ultimately more loyal to him than his cousin Bashar. In a word, Rami was an obstacle.

Jacob:

There's a lot on the line here. Do we have the ability to assess whether Russia or Iran would come out on top of Rami's downfall? Do either of them stand to gain the most from his essentially implosion in the Syrian Regime?

John:

Yeah, Jacob, that I think is the most important question. And to sort of build off what Nick described, unfortunately in this case, it's not clear who is going to gain more benefit just yet. I think it's important to understand that the way the regime operates can make it very difficult to fully paint a picture from the outside. There are plenty of reports on the fallout, uh, and some of the moves that are happening right now inside of the regime. But some of these reports are contradicting each other.

So for example, we're seeing reports from regime insiders claiming that the Iranians are preparing to make a move on some of the portions of Makhlof's portfolio, while at the same time, others are claiming that those same portions will go to Russia. Some of the early, early reporting in the fall of 2019, right as Makhlof and Assad began their sort of fallout, suggested that the funds Assad was seizing were intended to pay off some of the debts to Russia. So we are definitely watching for whether Russia or Iran will gain an advantage, and whether they will have sort of a bigger chunk of the Syrian economy because of Makhlof's sort of implosion. But at this time, I don't think it's fair to say that either one is in a better position just yet.

Jacob:

Do you think that there's any chance that these outside forces, notably Russia and Iran, intend to take control of some of Makhlof's physical assets?

John:

So I think Syriatel and its role in the telecommunications market is going to be a very valuable asset that either Russia or Iran will likely try to take. Iran has historically attempted to enter the Syrian telecoms market even before the war. But Rami's sort of portfolio was not just telecoms and his role in the economy is definitely going to create a vacuum. So I think one of the key things that we are going to be watching to see who is going to take control of some of these assets will be to see who moves to fill that vacuum. Russia and Iran are likely going to work with some of the existing business network of Syrian businessmen that they are already cooperating with.

And so, this vacuum left by Rami actually could give new opportunities to some of the sort of rising businessmen in the regime community to secure pieces of Rami's empire and sort of catapult themselves forward in the fallout of this episode.

Jacob:

Got it. And all of this internal squabbling between the regime and its allies is happening while a nascent insurgency is building up specifically in Daraa Province. Nick, can we get an overview of that particular challenge?

Nicholas:

Sure, Jacob. And you know, I think this is a very important area of Syria that we need to keep our eye on. Um, you know, Daraa is that piece of Syria where the protest movements began the general uprising in Syria, and then the subsequent civil war all the way back in 2011 started against the regime of Bashar al-Assad. Daraa was an important stronghold of the armed opposition from 2011 all the way to about 2018. But a combined campaign by Russia in the regime that began in the summer of 2018 essentially led to the collapse of rebel rule in southwest Syria. A part of what Russia did, was it used overwhelming air power and then had that pressure to broker a number of what we would call reconciliation deals, and here I'm using air quotes, with the "local armed opposition

groups” that was supposed to be a way to peacefully bring back former opposition held areas under the control of Damascus, but with the significant degree of local autonomy for these former opposition held areas.

Now the reality on the ground is that, these deals haven't actually led to opposition control and the regime has tried to come back in a very big way in southwest Syria. Russia's deals are falling apart because the regime wants to reimpose its own harsh security state, and it's, and it sends a strict obedience to Damascus and the Assad family in particular. What more, Iran and its proxy organizations, particularly Lebanese Hezbollah, has been setting up shop in parts of southwest Syria, especially on the Syrian side of Golan Heights. And Iran and Lebanese Hezbollah have been turning this region on the Golan Heights in Syria, into another front in Iran's campaign against Israel.

Jacob:

So at this moment, is there a renewed insurgency in southwest Syria? Or is it still theoretical?

Michael:

Hey, Jacob, this is Michael. In a word, yes. Assad is not only facing an insurgency, but he's facing a very organized insurgency that is amounted by multiple groups to challenge his authority, not just in sort of the core southern areas around Daraa City, but really stretching all the way from the Jordanian border to really up to Damascus City, which is posing a, a big threat to his claim on legitimacy and control over the region.

Jacob:

Thanks, Michael. And where are these insurgents then coming from? What's their motivation? Is it unified? Or are they all seeking somewhat different agendas?

Michael:

Well this insurgency arose from the aftermath of the regime's takeover of the south as, uh, Nick noted in 2018, which was successful on part to these so-called reconciliation agreements, which were brokered by Russia and which allowed the regime to enter a lot of areas without really having to fight block by block and in a lot of ways, without eliminating the kind of opposition that could reemerge afterwards. A lot of the, uh, former rebels in the south for example, were allowed to keep their small arms. These reconciliation agreements were not uniform however, which created a patchwork of different legal regimes all across the south.

So for example, while one town's young men might be exempt from, uh, conscription to regime forces for a period of six months after the agreement, a town right next door might only be exempt for a few weeks. And this patch work led to another of abuses by the regime security forces and intelligence services, um, and a growing resentment against both the regime and the reconciliation agreements themselves with a lot of the local population really starting to question whether they should continue to abide by the terms of these agreements going forward.

Jacob:

So, was the regime's control then of this area essentially doomed to fail or essentially encounter Syria's resistance from the moment these agreements were signed? Because, it sounds like the agreements were fundamentally flawed.

Michael:

So, sort of. The regime really has made no effort in terms of trying to meet the disgruntled population half way. And it's really continued to pursue Assad's agenda for absolute maximum control over these areas, which has really been the source of a lot of the pushback they've received. The regime has continued arbitrary arrests and deten-

tions. Iran as Nick noted, has setup shop with its proxy forces included Hezbollah, which not only has, uh, threatened Israel nextdoor, but really a lot of the local population aren't, not too happy at all with this setup. And really ... And there have been protests, um, really escalating starting last November or so against the Iranian proxy presence in the south.

And often, the rebels who were in these negotiations with Russia back in 2018, have faced pushback themselves from the local population in the form of assassinations or, um, maybe not on the same level, but you know, people just calling them traitors or, um, lots of worse words.

So, what we've seen is, uh, that this resentment towards the regime, towards, uh, those that led the negotiations, towards Iran, has led to this insurgency with multiple groups, uh, essentially trying to do what they can to right those wrongs that they see and put some pressure on those security forces to either abide by those agreements or get out.

Jacob:

What are the major groups that are pushing against the security forces in this area?

Michael:

Firstly, we have, uh, groups that brand themselves as, uh, Free Syrian Army, sort of old school Syrian opposition. Most prominent group, uh, that I put in this category is a group called the Popular Resistance in Daraa, which is notable because they not only operate in Daraa Province, but they are also part of an operations room with, uh, another group that operates in Damascus City, which really shows the stretch of some of these groups. The second class of insurgent groups that we're watching is ISIS, which is known to be operating in Daraa. They formally had an affiliate in the region, which has sensory established itself.

And in addition to ISIS, there could be other Salafi-Jihadi groups, possibly those linked to Al-Qaeda. And then in some cases, we see, uh, even reconciled rebels or so called reconciled rebels who are now fighting within regime units, particularly those units which Russia has stood up, uh, after the regime takeover of the south, which have effectively been sabotaging the very agreements that they have subscribed to. So, we've actually seen members of the Syrian Arab Army participating in protests against the Syrian Arab Army, which is really an unusual dynamic. But the result of all of this, what it adds up to, is that we have an organized insurgency but a decentralized insurgency. And this has made it very difficult for Assad or any of his backers, Russia or Iran, to try to amount any kind of effective strategy to contain it through force. And frankly, Assad just doesn't seem interested in making any of the kinds of concessions that would be necessary to try to end it diplomatically.

Nicholas:

And I would just add you know, to Michael's excellent points. You know, it really does seem like the Assad Regime's playing a bit of whack-a-mole in southwest Syria. But it also has some real advantages, the regime does. Uh, not the least of which is that a would be insurgency in southwest Syria would have to resolve the challenge of not only confronting the regime, but also the looming threat of Russian air power, Iran and it's proxies such as Lebanese Hezbollah, and also a patchwork of local Syrian militia groups that will side with the regime when push comes to shove.

Jacob:

And with all that in mind, what indicators should we be looking for that the insurgency in southwest Syria poses a real credible threat to the Assad Regime?

Michael:

There are three big breaking points that we're watching out for. And the first of these is a further expansion of the insurgency to a point where Assad can't get away with, as Nick said, just playing whack-a-mole. This would include rebels, uh, starting to seize and hold terrain, such as population centers, key roadways. We've already seen in some cases, temporary takeovers of towns, but none that have really been formally held in a sense of being able to control what actually happens in that town on a longterm basis. We are looking for, um, major reconciled former rebel leaders formally re-negging on their reconciliation agreements and essentially declaring them null and void.

Another, uh, possible, uh, expansion we're looking out for is a sudden increase in the sophistication of attacks. Uh, a lot of the attacks that we have been seeing in the south have been, you know, roadside IED attacks, um, assassinations, but we haven't seen for example, a suicide vehicle-borne IED or SVBIED, which would cause sort of a mass casualty, uh, event. Or another, uh, possibility would be coordinated, uh, response to a regime security operation that covers not only Daraa Province, but also Damascus. So what we've seen in the past have been, you know, the regime will attempt to subdue a particular town as part of its game of whack-a-mole. And then we've seen things light up all across Daraa Province. But we, since we know that some of these groups actually have contacts in Damascus, one big potential escalation would be that the regime attempts to attack a town in the south, and then we start to see things blow up in Damascus, which would be a big indicator that this is, insurgency has reached another level.

Another sort of class of things we're looking for would be that Russia might be a breaking point, and it stops being able to carry the weight of trying to keep the south stable for Assad. As I mentioned, we've seen, members of Russian backed units start to kind of break away, or at least not fully adhere to, the agreements that they're a part of. And if we start to see an escalation of that in the form of defections or just outright insubordination, that would potentially leads to some, a major breakdown of the reconciliation agreements across the south.

Or, Russia could simply just decide to pull up shop, or even less than that, they could just decide to stop trying to negotiate on behalf of Assad. Russia's main interest in Syria really don't lie in the south. And if they assess that the cost associated with trying to keep the south subdued is too great, they may decide that their interest lies elsewhere and just leave it up to Assad and Iran to try to fix the problem.

Now, a third and possibly the most dangerous thing we're looking for would be a renewal of the Salafi-Jihadi threat in the south, either through ISIS or through Al-Qaeda. ISIS, uh, started claiming, uh, attacks in Daraa Province at a much higher rate over Ramadan in May than it had in previous months. So, while we assess that that ISIS group has probably been there this whole time, it's really showing that its capabilities are above what we had previously thought. And if ISIS is able to operate in this area, then we believe that so could some Al-Qaeda affiliates. And the combined threat of ISIS or Al-Qaeda, or even just either one of those really starting to escalate its actions in this grid square could leave to a massive destabilization of the area, especially if they start to take terrain.

Now there is one wildcard I also wanna mention, which is a potential escalation between Israel and Iran. Daraa and Quneitra provinces, as Nick mentioned, are immediately next to the Golan Heights. And Israel has already conducted airstrikes on Iranian proxies in both provinces. If we reach a point where either Israel or Iran decide to escalate against each other in this area, it could fundamentally shift the playing field in a way that I don't think anyone is ready to predict, but which would absolutely have some very serious longterm consequences in the area.

Jacob:

Thanks, Michael. I think that brings us to the upcoming implementation of sanctions by the US. Would one of you mind giving me brief rundown on those sanctions?

Nicholas:

Thank you, Jacob. Uh, these sanctions which are called the Caesar Sanctions are set to begin this month. The Caesar Sanctions actually have their origin in a series of legislation that was, uh, tried, but failed to be passed by the U.S. Congress. They were called the Caesar Syria Civilian Protection Acts. They're named after a famous Syrian opposition dissidence, who was able to provide photographic evidence of tens of thousands of Syrian civilians that were tortured and killed by the Assad Regime. These Caesar sanctions were incorporated into the 2020 National Defense Authorization Act through the NDAA.

And what they're really meant to do is to create what we call super sanctions to prevent Russia and Iran from finding ways to game the international system to benefit from the potential reconstruction of Syria, which would be dominated by Russia, by regime held areas, to target international companies that will try to profit from Syria's oil, gas, and aviation industries. And fundamentally, these sanctions are considered to be a game changer, because by targeting individuals that are not necessarily Russian, they're not necessarily Iranian, not necessarily regime, but are what they call secondary sanctions against international companies' interests. They're really meant to place a vice on any type of attempts for Assad, any members of his regime and his allies from benefiting from any type of profit extracted industries at the conclusion of the conflicts.

Jacob:

I see. And how will these sanctions affect the Syrian economy?

John:

Hi, Jacob. I think we're already seeing the effects of the sanctions on the economy. As I've mentioned previously, the pound's value is dropping at an alarming rate, which is due to a number of factors, but I definitely think that the sanctions are playing into that. And as I noted, this is making it extremely difficult for the average Syrian to buy food and other necessities. And it does a drive protest and anger in areas of regime held Syria like Suwayda, for example.

Suwayda's a little bit different because the relationship between the Druze community that inhabits Suwayda and the Syrian regime is a little bit different than the traditional relationship between the loyalists and the regime, in that the Druze essentially remained loyal to the regime as long as the regime left them alone. Now what we have seen in the past few days as the, in early June, as the economy has worsened is that the Druze have taken up in protests calling for in some cases, even the overthrow of the regime. These types of protests will likely continue not just in Suwayda, but in other areas as the sanctions are enacted and the economy takes an even further downturn.

And I think the other key part that Nick mentioned on reconstruction, is that these sanctions the U.S. is preparing to enact are going to make it extremely difficult for any country or company to work with the Assad Regime on reconstruction. And so, Assad is actively trying to court countries to restart ties with him. And some of these countries actually might be driven away by fear that they could be caught up in these sanctions.

So just a couple of examples I think that we can look at. So I look at a country like Jordan, that Assad has been trying to regenerate a trade relationship with since July 2018 when pro-regime forces retook the Syrian Jordanian border. Assad wants to expand land trade between Syria and Jordan, but it will become increasingly dangerous for Jordanian entities to work with Assad out of fear of some of these sanctions and potentially being caught up in

these sanctions if they do resume that trade at a larger scale. We've seen some European countries start to take initiative to resume relations with Assad in the future. Countries like Hungary, Cyprus, Greece, and while none of these countries are likely to be a large investor in Syrian reconstruction projects, the fear of these sanctions wards off those countries from potentially wanting to engage in projects. That doesn't mean that they would not, but it is definitely a big risk because of the way these sanctions are designed.

And one last example, no one country is going to fit the bill for the reconstruction, and Assad's likely going to rely on multiple different countries to provide some of that funding. One country that he has made public overtones to is China, uh, with the Belt and Road Initiative. Again, China's unlikely to front a massive bill for Syrian reconstruction, but these types of sanctions create risk for Chinese companies that might be looking at Syria in the future as a potential place for investment.

Jacob:

It sounds like Assad has his work cut out for him. And with that, I wanna thank you all for being here and sharing your expertise today.

Nicholas:

Thank you very much, Jacob. It was a very thorough conversation.

John:

Thanks, Jacob and team, uh, I really enjoyed it.

Miachel:

Thanks, Jacob. This is fun as always.

Jacob:

ISW will continue to monitor the Assad Regime and the challenges it faces to reconsolidate its control over Syria.

Kim Kagan:

Thank you for listening to this episode of Overwatch. We look forward to your feedback on this episode and previous ones. Visit www.understandingmore.org to learn about ISW's work and to sign up for our mailing list.

Contact us: For press inquiries, email press@understandingwar.org