

# Assad Needs the United States and Its Allies for Reconstruction

by [Jomana Qaddour \(/experts/jomana-qaddour\)](/experts/jomana-qaddour)

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## ABOUT THE AUTHORS



[Jomana Qaddour \(/experts/jomana-qaddour\)](/experts/jomana-qaddour)

Jomana Qaddour is a nonresident senior fellow with the Atlantic Council, where she leads the Syria portfolio.



Brief Analysis

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**Damascus and its partners can't rebuild the country by themselves amid their growing budget crunch, so Washington has leverage on key transition issues even if Assad keeps stalling.**

Since December, several Arab states have reopened their embassies in Syria, generating speculation about whether the Assad regime will participate in the Arab League's upcoming summit after being excluded from the organization for more than seven years. As Damascus continues making incremental progress toward full regional integration, its biggest challenge will be securing the hundreds of billions of dollars required for postwar reconstruction. The Trump administration should therefore work with regional allies to decelerate this reintegration and leverage reconstruction funding to press U.S. interests.

## SYRIA CANNOT FUND ITS RECONSTRUCTION ALONE

After years of destructive war, the Syrian economy is a shadow of what it once was. According to the country's Central Bureau of Statistics, the GDP shrunk by four-fifths between 2010 and 2016. The World Bank determined that public revenue dropped from 23 percent of GDP in 2010 to less than 3 percent in 2015, and the lira depreciated by 459 percent during that same period due to lost oil revenues, a trade collapse fueled by sanctions, the emergence of a robust informal economy, a lack of local capacity to collect taxes, and other factors. The UN's Economic and Social Commission for Western Asia estimates the cost of reconstruction to be almost \$400 billion, 65 percent of it in the housing sector according to IMF data.

Meanwhile, much of Syria's business community has fled, with the World Bank reporting that private investors' share of GDP dropped from 12 percent in 2010 to 4 percent in 2015. The remaining business community is largely affiliated with Bashar al-Assad's oligarchy: at least 270 individuals and 72 regime-connected businesses have been

placed on U.S. Treasury lists, EU sanctions lists, or both, including prominent pro-regime figures Rami Makhlouf, Samer Foz, and Muhammad Hamsho.

## LEGALIZING DISPOSSESSION

In short, Syria's public and private sectors are not prepared to take on the challenge of nationwide reconstruction. Instead, they seem more focused on rewarding elites in the capital and other metropolitan areas while redrawing the country's communal map. For example, rather than addressing the crucial task of providing housing to the nearly five million refugees still stuck abroad, current construction efforts center on pro-regime businessmen launching major luxury housing and entertainment projects in Damascus-area municipalities such as Marota City, Jobar, and al-Qabun, with more to come in Aleppo and Homs. According to local contractors, apartments in such developments will list at \$3,500 per square meter (\$300 per square foot), or nearly \$500,000 for a three-bedroom unit, well beyond the reach of returning refugees.

At the same time, the government has been steadily appropriating as much property as it can, in part by issuing over twenty new property laws during the war. The controversial Law No. 10 (2018) created redevelopment zones across Syria and gave existing owners of property therein only one year to register their claims in person to government officials—an impossible condition to meet for many political dissidents, refugees, and other owners. This policy is also deeply problematic because only 50 percent of Syrian property was officially registered before the war, according to Human Rights Watch. Similarly, Law No. 3 (2018) permits governors to demolish private buildings on certain lands, while Legislative Decree No. 63 (2012) allows the government to seize property from “terrorists”—meaning any of the regime's political opponents—without due process. Anecdotal reporting tells the same story, with some owners complaining that they have been dispossessed of lucrative property and paid as little as 10 percent of its value in return.

## LIMITED FUNDING OPTIONS ABROAD

Despite the allure of lucrative new projects in a financially stagnant region, investors are not biting—not even Assad's closest allies. Iran has signed several memorandums of understanding with Damascus on issues such as combatting money laundering and encouraging joint investment, but these agreements are more symbolic than financially significant. The uptick in sanctions since Washington withdrew from the Iran nuclear deal last year have limited the Islamic Republic's spending power in Syria—though Tehran remains an important source of credit for Damascus, lending it \$6-7 billion worth of crude oil since 2013.

Another ally, Moscow, has publicly insisted on being the primary broker of reconstruction after spending around \$1.2 billion per year on military operations in Syria, according to the Russian newspaper *Vedomosti*. Yet the Kremlin faces its own financial challenges and cannot afford to subsidize such large-scale redevelopment. Instead, Russian firms have signed numerous contracts focused on extracting Syria's resources, including a fifty-year deal by Stroytransgaz to monopolize phosphate production and various deals to liberate, defend, and/or develop oil and gas fields (e.g., with the company Evro Polis).

In contrast, EU member states have insisted that they will not commit reconstruction funds to Syria without tangible political progress. Indeed, they have gone further than the United States in sanctioning many of the corrupt Syrian businessmen on whom the regime is counting to secure foreign funding. In late January, the EU added 11 such businessmen and 5 entities to its burgeoning sanctions list, which now includes 270 Syrians and 70 entities total.

The prospect of securing funds from international financial institutions is currently unrealistic as well. In addition to the fact that Washington and Europe oppose such measures, the Assad regime has bitterly resisted making even modest economic reforms of the type that these institutions typically require, in terms of minimizing corruption and increasing transparency and accountability.

As for Arab states, their views on reconstruction are not monolithic. Egypt is in no position to invest, but it hosted Assad's security advisor Ali Mamlouk in December and aspires to capitalize on new projects in Syria by sending laborers and state-owned companies to work there.

In Jordan and Lebanon, statistics are not yet available on the impact of reopening the Nasib border crossing, but any macroeconomic benefits would be marginal—according to the World Bank, trade with Syria constituted only 4 percent or less of each country's overall foreign trade even before the war. To be sure, the crossing remains economically significant as part of a longtime transport route for Jordanian goods. Yet the Assad regime is exploiting the situation by charging massive customs fees—Jordanian and Lebanese trucks are now charged around \$800 and \$700, respectively, just to cross the frontier, according to the Jordan Truck Owners Association.

Among the Gulf states, Saudi Arabia remains hostile to the Assad regime and is therefore uninterested in reconstruction investment. Yet Riyadh's close allies Bahrain and the United Arab Emirates are exploring the possibility of rehabilitating their relations with Damascus. In late January, the UAE hosted a high-profile meeting between a Syrian trade delegation and the Abu Dhabi Chamber of Commerce regarding private-sector cooperation. Since that meeting, however, any ambitious plans have been put on hold, apparently due to U.S. pressure.

## **POLICY RECOMMENDATIONS**

**T**he Trump administration's stated policy objectives in Syria were reaffirmed at the February 6 meeting of the "Global Coalition to Defeat ISIS": namely, to push back against Iranian hegemony, destroy the Islamic State, and condition reconstruction on real political progress outlined in UN Security Council Resolution 2254. Now that the administration intends to relinquish most of its military leverage inside Syria, however, it will need to strategically coordinate with regional allies even more to achieve these objectives. Its last, best leverage in this regard is reconstruction.

Therefore, Washington should firmly condition the unlocking of financial and reconstruction assistance on Syrian political progress. Among other measures, it should require Damascus to take the following steps:

- End forced conscription.
- Acquiesce to the provisions of Resolution 2254, including national elections by 2021.
- Distance all sanctioned regime figures from reconstruction projects.
- Refrain from interfering with registered humanitarian organizations, including the United Nations.
- Release the estimated 100,000 Syrian political prisoners it is holding.
- Free all American prisoners, including Austin Tice and Majd Kamalmaz.

While Russia and Iran may have won the military phase of the war, they cannot win the peace so long as they are unable to rebuild Syria. More than ever, Assad and his allies desperately need international assistance. Yet even this glaring need may not be enough to compel regime action on any of the above steps. As Assad's conduct during the war suggests, he cares little about the plight of the Syrian people and is unlikely to prioritize reconstruction over his own political survival. In the short term, he will likely try to wait out Washington and the EU while consolidating his grip on the country.

To make progress, then, Washington should not only leverage reconstruction dollars, but also increase Assad's budgetary costs—for example, keeping oil and gas beyond his reach, which would create an acute necessity to make concessions. By bringing regional allies on board and further pressuring the regime, the United States may yet be able to achieve some of its objectives in Syria.

*Jomana Qaddour is a Syrian American analyst and doctoral student at Georgetown University Law Center, where she*

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