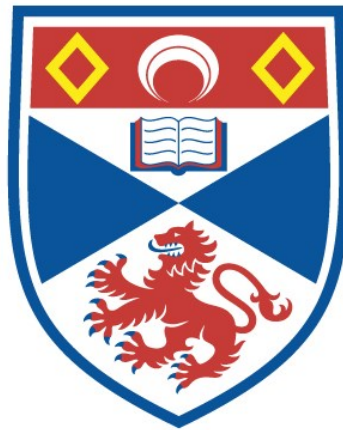


Explaining Syria's coping with economic sanctions: the interaction of international and domestic factors

Ferdinand Alec Arslanian

A thesis submitted for the degree of PhD
at the
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Abstract

This thesis seeks to explain the dynamics that shape the outcome of a sanctions episode and how ruling regimes in the target country endure the impact of economic sanctions. The thesis aims at bridging the gap in the existing literature between international and domestic-level explanations for the outcome of the sanctions episode. For this purpose, the thesis develops a theoretical framework that integrates international factors into a target country-level domestic mechanism framework. The framework examines the interaction of sanctions implementation, the behavior of third countries and the strategic response of domestic social forces and their combined impact on the target's political economy and, in turn, assesses how the change in the political economy affects the target's domestic politics and shapes the sanctions' outcome. This thesis will apply the US/EU episode of economic sanctions on the Syrian Arab Republic (2011 – ongoing) as a plausibility probe to test the validity of the framework.

The thesis argues that the ability of the target country to maintain its system of political economy plays a significant role in explaining its coping with economic sanctions as that allows the ruling regime to maintain its coalition building strategies. This factor is reinforced when the opposition in the target country suffers from structural weakness especially when further weakened by the sanctions episode. Within this context, international factors such as the level and type of sanctions busting from third countries, the level of sanctions enforcement by sender states and the level of compliance by non-state actors in the sender country can either facilitate or constrain target-level actors' domestic strategic response to the sanctions episode and hence can either contribute towards maintaining or debilitating the target's political economy.

In the case study examined, the Syrian regime was able to narrowly maintain its post-populist authoritarian system of political economy and thereby narrowly maintain its ruling regime coalition which comprised of different segments of the country's populist and business classes. Preserving the regime coalition was reinforced by the fragmentation, dysfunctionality and the religious radicalisation of the Syrian opposition. Different international factors played different roles in shaping the outcome of sanctions episode. In the initial period, the failure to re-direct Syria's embargoed oil surplus towards new exports markets was countered by the ability to retrieve most of its financial reserves and thus preserving the international economic integration required for maintaining its political system. In the latter period of the sanctions episode, new rent sources related to international humanitarian and political rent allowed for the partial maintenance of the system. The Syrian case highlights the new trend in sanctions design where the growing complexity in the sanctions regime, the 'comprehensivisation of targeted sanctions' and resort to secondary sanctions calls for reconsidering the devastating humanitarian impact of economic sanctions.

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Chapter One: Introduction

1.1 Research Question, Purpose & Methodology

This thesis seeks to explain the dynamics that shape the outcome of a sanctions episode in relation to cases where regime change in the target country represents the main objective from imposing economic sanctions. The central question of the thesis can be stated as: What is the causal process that allows the target regime to endure the impact of economic sanctions? In studying these dynamics, a few more questions arise: How does the international setting contribute towards undermining the sanctions episode? What was the role of the ruling regime's strategic response? How did the sanctions episode contribute towards reshaping the country's political economy? What was the impact of the opposition's characteristics, strategies and organisational capacity on shaping the sanctions episode?

These questions are addressed through developing a theoretical framework that seeks to elaborate on the mechanisms through which sanctions function at the level of the target country, from one side, and to integrate international factors into these mechanisms, from another. In developing this framework, this thesis seeks to bridge the existing stratification in the sanctions literature between international and domestic levels of analysis. The framework will focus on the micro-dynamics within the target, sender and third countries and, more specifically, on the interaction between state and non-state actors in these countries. Therefore, the framework will contribute towards streamlining the micro-foundations approach within all relevant countries of the sanctions episode.

In discussing international factors, the theory will compile the scattered literature to address the sanctions enforcement mechanisms, the role of non-state actors in sender countries and third country's response to the sanctions episode. The framework will show that international factors contribute to the outcome of the sanctions episode through three main channels: mitigating/exacerbating the direct economic costs of economic sanctions, facilitating/constraining the target's counter strategies and contributing towards the creation of a new economic structure in the target economy with unforeseen political implications. The framework examines the interaction of sanctions implementation, the behavior of third parties and the strategic response of domestic social forces and their combined impact on the target's political economy and, in turn, assesses how the change in the political economy affects the target's domestic politics shaping the sanctions' outcome.

In tune with the theoretical framework, the thesis adopts the methodology of 'process tracing'. Process tracing is a methodology in qualitative research that "attempts to identify the intervening causal process—the causal chain and causal mechanism—between an independent variable (or variables) and the outcome of the dependent variable" (George & Bennett, 2005, p. 141). It "uses a longitudinal research design whose data consist of a sequence of events represented by nonstandardized observations drawn from a single unit of analysis" (Waldner, 2012, p. 69). Process tracing adopts a "mechanismic ontology of causation" (Beach & Pederson,

2013, p. 39) that assumes “a plurality of factors work together to produce the outcome of interest” (Blatter, 2012, p. 6).

In terms of research design, the thesis is divided into two main parts: a theoretical and an empirical part. In the first part, the various streams of the relevant literature are critically assessed, and based on the assessment, a theoretical framework is proposed and operationalised where “the mechanism is explicitly theorized” (Beach & Pederson, 2013, p. 50). The empirical part involves the case study where for “each part of the hypothesized causal mechanism”, it will be investigated “whether the predicted empirical manifestations of the mechanism were present or absent” (Beach & Pederson, 2013, p. 50).

The case of US/EU sanctions on the Syrian Arab Republic will be examined as a plausibility probe to test and refine the newly developed theoretical framework. Sanctions were imposed in 2011 as a response to the Syrian regime’s crackdown of the Syrian uprising and its main objective is to coerce the Syrian regime into accepting a vaguely-defined political transition which involves power-sharing measures between the Syrian regime and the opposition. The case will be divided into two periods and the theoretical framework will be examined for each period separately. The first period (2011 – 2012) covers the first two years of the sanctions episode where the Syrian conflict was escalating militarily while the second period (2013 – 2016) where the Syrian conflict had already transformed into a full-scale military confrontation.

As the methodology involves an in-depth single case study, it “has the potential to generate relatively complete explanations” (Waldner, 2012, p. 69). Nevertheless, this aspect is not without its drawbacks as it “privileges internal validity over external validity” adding a “constraint on generality” (Waldner, 2012, p. 69). Alternatively, process tracing aims at what Blatter (2012) refers to as “possibilistic generalization” in which the “case study lead to knowledge about the causal configurations (combinations of causal conditions or social mechanisms) that make specific outcomes possible” (p. 9).

1.2 The Outcome of the Sanctions Episode: The Literature

The literature on sanctions outcome can be divided along two categories: the level of analysis that distinguishes between international and domestic levels of analysis and the unit of analysis that distinguishes between the macro and micro-dynamics of the target country. Each framework that addresses the outcome of a sanctions episode utilises a different combination of the two categories.

The conventional wisdom within the literature represented by Haufbauer et al. (1985), and popularised as the HSE framework, combines the two levels of variables while restricting the unit of analysis at the macro level. Their methodology relies on compiling a comprehensive set of episodes, quantifying each episode’s success rate and correlating it with a set of economic and political variables. Their underlying assumption was that the target country undertakes a process similar to a cost-benefit calculation on whether to comply with or defy the senders’ demands based on the values of the different variables. These variables are divided into

economic variables such as the costs of sanctions incurred by the target, the trade linkages between the sender and the target and the presence of offsetting international assistance, and political variables such as the prior relations between the target and the sender and the presence of companion policies.

The main outcome of the study was that economic sanctions have an overall 'one out of three cases' success rate arguing that sanctions are likely to work if the dispute is related to a modest policy change, the target is a democratic and politically unstable, economically weak and incurs high cost from sanctions, is politically allied and trade dependent on the sender and does not receive external assistance from a third country. The HSE framework was tested using more sophisticated statistical models (Bonetti, 1998; Dashti-Gibson et al., 1997; Dehejia & Wood, 1992; Drury, 1998; Elliot & Uimonen, 1993; Lam, 1990; van Bergeijk, 1994; Nooruddin, 2002) and factors such as the economic costs incurred by the target, external assistance to the target, trade links and prior relations with the sender were emphasised as the main determinants of sanctions outcomes among the different HSE variables.

Later studies were stratified along the line of international and domestic variables. A specific interest in the role of international factors in determining the outcome of the sanctions episode arose as an offshoot from the statistical approach. This interest was stirred by the shift in the international system associated with the end of the Cold War and its impact on the effectiveness of economic sanctions. Within this context, issues related to the effectiveness of international cooperation (McLean & Whang, 2010; Bapat & Morgan, 2009), the role of sanctions busting from third countries (Early, 2009; Early, 2011), the role of the international organisations (Hufbauer et al., 2007) and the role of international system polarity (Collins, 1999) were addressed. Another ramification of the literature addressed the enforcement of sanctions by the sender state and the compliance of firms within the sender country (Morgan & Bapat, 2003; Bapat & Kwon, 2015). Overall, the unit of analysis these studies remained at target country's macro-level and followed the main underlying HSE assumption of relating sanctions outcome with the associated cost of the specified international variable on the target's economy.

The other offshoot from the statistical approach questioned the link between the sanctions-induced economic costs and target compliance in light of the apparent failure of costly sanctions episodes and most notably the case of Iraq. The authoritarian nature of the target country was brought to the fore as an explanation for target resilience (Bolks & Sowayel, 2002; Lektzian & Souva, 2007; Allen, 2008; Guijarro-Usobiaga, 2015). Theoretically, this stream of literature addressed the micro-dynamics of the target country through distinguishing between the size of the winning coalition in authoritarian and democratic countries arguing that the authoritarian countries are more likely to withstand economic sanctions due to the smaller size of the winning coalition they need to appease. However, empirically, these frameworks remained at the macro level with the reliance of statistical analysis and the introduction of indicators, such as the target's 'democracy score', as a proxy for the target's political system.

The analysis at the level of the micro-dynamics of the target country comprises of several frameworks that differ in their assumptions and their level of sophistication (Kirshner, 1997;

Brooks, 2002; Kaempfer et al., 2004; Jones, 2015; Connolly, 2018; Escribà-Folch & Wright, 2010; Kaempfer & Lowenberg, 2007; Blanchard & Ripsman, 2008). What unites these frameworks is the argument that sanctions affect different actors within the target country in a different manner and that those different actors vary in their level of political influence over the outcome of the sanctions episode. A subset of this stream of literature played an important role in unraveling the mechanisms in which sanctions affect the target country through elaborating on the links between the economic and political dimensions of the target country. Initially, Kaempfer et al. (2004) argue that sanctions-induced economic deprivation affects the supply and demand curves of the target regime's 'inputs of power' namely, its capacity to coerce and co-op its target population. This mechanism has been developed to show how sanctions contribute towards reshaping the target country's political economy and how the outcome of the sanctions episode is related to the new political dynamics based on the reshaped political economy (Escribà-Folch & Wright, 2010; Jones, 2015, Connolly, 2018).

While these frameworks have contributed significantly towards unraveling the domestic mechanisms through which sanctions affect the target country, they have neglected the role of international factors, most notably the role of the third countries, in shaping sanctions outcome as these factors have been confined to implicit notions rather than being explicitly theorised. Examining the existing scholarship on economic sanctions, the sole explicit attempt to examine the link between domestic and international factors in shaping sanctions outcome has been carried out by Green (1983). Green discarded the ability of domestic strategies by themselves to undermine the sanctions episode and gave primary role to third countries, or what he referred to as 'significant evaders', arguing that no degree of domestic measures can compensate for the absence of crucial goods and that the success of domestic mobilisation strategies are predicated upon the ability to procure such essential products.

1.3 The Outcome of the Sanctions Episode: Thesis Findings

The final outcome of a sanctions episode is determined by the interaction of the reshaped domestic system of political economy with the characteristics of the opposition within the target country. The maintenance of the existing system of political economy and/or the existence of a weak opposition, or an opposition weakened by sanctions, reduce(s) the possibility of sanctions success given that regime coalition building strategies are more likely to be maintained. In the case examined in the thesis, the failure of the sanctions outcome can be attributed to the combination of the regime's ability to narrowly maintain its system of political economy and the fractured and radical nature of the target's opposition. From its side, the reshaped system of the target's political economy is the result of a complex interaction between the international factors related to the sanctions episode and the different counter strategies of the domestic actors within the target country. More specifically, each of the regime's counter sanctions sub-strategies is either facilitate or constrained by the combination of several international factors for each type of economic sanctions.

1.4 Thesis Outline

The thesis is structured as follows. Chapter Two aims at developing a theoretical framework that addresses the research question based on a critical review of the existing literature. The Chapter will begin with defining key concepts in the sanctions literature and then will move to literature review which is divided into three parts. The first part, which is the main part of review, will evaluate the various frameworks that focus on the domestic mechanism in which economic sanctions function within the target country. The second part will address the role of international factors, senders and third countries, in shaping the outcome of the sanctions episode. The third part will unravel the implicit and peripheral attempts to bridge the interaction between international and domestic factors. Based on the key points raised in the three parts of the literature review, a theoretical framework will be developed which integrates international factors into a domestic mechanism framework. Finally, the chapter will wrap up with discussing methodological issues related to justifying the proposed methodological approach, data sources and case selection.

Chapter Three will act as a baseline situation analysis where the pre-sanctions political economy will be underlined. The chapter is divided into three main parts: the country's domestic system of political economy, its pre-sanctions socio-political contestation of state power and its pattern of integration in the global economy. The country's domestic system of political economy is based on Hinnebusch's (2000) adaptation of Ayoubi's (1995) Arab populist authoritarianism to the case of Syria and its transition to post-populist authoritarianism (PPA). The analysis of both the social contestation for state power and the pattern of integration in the global economy will be predicated upon the dynamics of the PPA system.

Chapter Four outlines the sanctions regime in terms of the countries and organisations involved, the primary and secondary senders, the different types of sanctions applied, the sequence of their application, the targeted areas of the economy and their projected impact of Syria's political economy.

Chapter Five discusses the sanctions episode during its early period (2011 -2012). It will outline the main strategies and responses of Syria's political forces and social groups to the Syrian crisis and how these strategies and responses with the imposition of economic sanctions. Afterwards, it will discuss the international dimensions of the sanctions episode both its implementation by the senders and the response of third countries. The analysis will then move to the domestic level where the implementation of the target country's counter sanctions and social contestation strategies will be discussed. Finally, the outcome of the sanctions episode will be addressed in terms of the reshaping of the country's integration in the global economy and its domestic system of political economy and its intervening role in the social contestation for state power.

Chapter Six carries out a similar process to Chapter Five but for the Syrian conflict's mid-period (2013 -2014). The main difference between the two periods is related to the domestic level as it becomes necessary to carry out a detailed analysis of strategy implementation among the

different contesting blocs in the Syrian conflict, rather than restricting the analysis to the Syrian regime's strategies, as the sanctions regime affects each bloc in a different manner.

In Chapter Seven, the conclusion is elaborated. The findings of the case study is summarised, the validity of the theoretical framework is assessed and several theoretical and policy implications are proposed.

Chapter Two: Review of the Literature on Sanctions' Outcome

2.1 Introduction

The failure to address how international and domestic factors interact and shape the outcome of the sanctions episode has created a stratification within the sanctions literature between a stream of literature that focuses on the role of international factors, assumes the target country as its unit of analysis, and relies on large n statistical analysis and between another stream of literature that examines the micro-dynamics within the target country yet fails to explicitly take into the role of international factors.

Therefore, the literature review in this chapter will discuss these two streams of literature separately. It will show how the role of third countries and senders' attributes have been addressed and how the domestic mechanism frameworks have evolved from simple notions of institutional binaries towards complex frameworks that relate the economic and political dynamics. The third and final stream of literature is more implicit within the existing literature and aims at utilising the implicit notions of interaction between international and domestic factors in order to bridge the two levels of analysis and provide a building block for developing an integrated framework. The proposed framework will show how the interaction of these two levels contribute towards reshaping the country's political economy which, in turn, represents a new platform in which domestic social contestation takes place and contributes towards shaping the outcome of the sanctions episode.

The chapter begins with explaining the key concepts of sanctions literature with the aim of making these concepts familiar to the reader. Afterwards, it moves to critically assess the aforementioned three streams of sanctions literature. Based on the literature review, it proposes a new theoretical and methodological framework for the study of the outcome of economic sanctions and concludes by addressing issues related to the operationalisation of the framework.

2.2 Key Concepts in Economic Sanctions

Economic Sanctions, as defined by Drezner (1999), represent the "act by a nation-state or coalition of nation states, called the *sender*, to disrupt economic exchange with another nation-state, called the *target*, unless the targeted country acquiesces to an articulated political demand" (p. 2). Whereas a '**Sanctions Episode**' denotes the imposition of economic sanctions by a specific sender(s) against a specific target entailing a "time dimension" that begins with the initiation of economic sanctions and lasts until their termination (Hufbauer et al., 2007, p. 43, 48). While the literature does not provide a precise definition of the 'Sanctions Regime', it can best be defined as the set of countries and sanctioning measures undertaken against a target during the sanctions episode.

Based on the definition of economic sanctions, it is important to distinguish economic sanctions from other analogous measures. To begin with, 'economic sanctions' differ from

'trade wars' in that the nature of the dispute, and hence, the nature of the sender's demand, in the latter case, is related to the domain of economics rather than the domain of politics, as in the former case, even though both tools apply economic disruptive measures (Pape, 1997, p. 94). Another distinction should be made between 'economic sanctions' and 'economic warfare' as the latter is meant to impair the "military capabilities" of adversaries through economic means rather than seeking the target's compliance towards "an articulated political demand" as in economic sanctions (Pape, 1997, p. 94). Another distinction needs to be made is between economic sanctions and economic inducements as even though they both represent economic means towards achieving a political end, economic inducements offer the target rewards such as "preferential trade arrangement and favorable loans" rather than disruption of economic relations (Hufbauer et al., 2007, p. 16-17). Sanctions are not confined to the domain of economics but apply to diplomatic, cultural and sports relations. Diplomatic sanctions entail "the severance of diplomatic relations... the expulsion of military attachés, the suspension of membership in an international organisation or the recall of ambassadors or the limitation of contacts" (Portela, 2014, p. 5). Cultural sanctions involve banning the target country from participating in art events and academic exchanges while sports sanctions involve banning the target country's national sports team from participating in international tournaments both of which were salient in the case of sanctions against South Africa (Black, 1999; Mangaliso, 1999). Finally, economic sanctions are rarely imposed in isolation but along with other tools of foreign policy including non-economic sanctions and various forms of military action which are denoted as "companion measures" (Hufbauer et al., 2007, p. 56-57).

Economic sanctions can be classified based on several criteria: the disrupted area of economic activity, the scale of the measures applied, the nature of the sender, the nature of the target and the objective from imposing economic sanctions.

The disrupted area of economic activity can be in relation to the flow of merchandise trade, flow of services and flow of finance. Disruption in the flow of merchandise trade, commonly known as **trade sanctions**, represents the most common form of economic sanctions and can be mainly divided into import and export sanctions. Import sanctions denote the prohibition of the target's exports to the sender country – these sanctions usually aim at depriving the target from its sources of revenue. On the other hand, export sanctions refer to the prohibitions related to target's imports from the sender and in general aims at depriving the target country from access to essential products for the survival of its population (food and pharmaceuticals) or for the functioning of its economy (oil and strategic goods with embedded technology) (Miyagawa, 1992, p. 17-18).

Sanctions on the flow of **services** include prohibition on telecommunications such as "submarine cables and satellites and postal services" (Miyagawa, 1992, p. 19), on transportation through air, land or sea. A recent form of sanctions on services is related to the **provision of insurance and re-insurance services**, especially marine insurance, to the target country. This measure aims at restricting the target country's trade indirectly through restricting the target country's interactions with "global shipping" industry. This logic is derived from the fact that ship owners

are obliged to cover their ships with liability insurance “to protect against such liabilities as oil pollution, loss of life and personal injury, wreck removal and damage to other vessels and property” (Moran & Salisbury, 2013, p. 24) and thus the failure of the ship owner to insure their ships impedes the target country’s capacity to trade¹.

Financial sanctions entail the various forms of “manipulation of international financial relations” by the sender country (Kirshner, 1997, p. 37). This includes the cessation of official government assistance to the target country, the prohibition of foreign direct investment (FDI) inflows, denying access to international capital markets, prohibitions on banking activities such as credit provision, trade financing, deposit acceptance and financial flows, and prohibition on subscription to loans and shares issued in the target country as well as imposing freezes on “overseas government and key individuals” assets (Brooks, 2002, p. 10; Cortright et al., 2002, p.23; Miyagawa, 1992, p. 20-21). While financial sanctions have traditionally involved withholding official foreign aid to the target country, asset freezes gained prominence in the latter half of the nineties. This was mainly motivated by the attempt to mitigate the humanitarian impact of economic sanctions and restrict its impact towards those directly involved in the disputed act as will be discussed in the following paragraph. However, asset freezes are not without their downsides as money can move/escape faster than legislation, difficulty “in identifying and tracing” the assets to be frozen especially in light of the existence of ‘offshore banking centres’ who are “structured to avoid the legal obligations of the international financial system” (Cortright et al., 2002, p. 31). In comparison with trade sanctions, financial sanctions are easier to enforce given the dominant role of the government and the small number of players involved rendering it more difficult for the target to circumvent them; especially that markets tend to reinforce financial sanctions in contrast to trade sanctions where the market tends to undermine them. Furthermore, given international trade’s dependency on finance, financial sanctions “impedes trade flows” without facing the difficulties associated with enforcing trade sanctions (Hufbauer et al., 2007, p.46-47).

Another criterion for classifying economic sanctions is related to the scale of the disruptive measures applied. Based on this criterion, economic sanctions are generally classified into ‘comprehensive sanctions’, which represent blanket economic embargoes, and ‘selective sanctions’ which involves “less-than-comprehensive measures” (Elliott, 2002, p. 172). selective sanctions entail restricting sanctions to financial sanctions or imposing “partial embargoes” through “banning the export or import of specific commodities” (Portela, 2014, p. 5). A subcategory that can be derived from selective sanctions is ‘targeted sanctions’ which represent imposing economic sanctions on persons and entities involved in the political dispute with visa travel bans and asset freezes representing the most renowned forms of targeted sanctions. The

¹ These sanctions were applied by Western countries on Iranian oil trade and even though Iran managed to circumvent insurance sanctions by developing its own insurance market, resorting to non-Western insurance companies and having trade partners provide state insurance for its shipping activities, it still faced problems in dealing with large cargoes as in such cases insurance companies are required to tap into the re-insurance market which is mainly dominated by western countries (Moran & Salisbury, 2013, p. 24, 26).

rationale for imposing such sanctions was to achieve target compliance through harming those who are directly involved in the dispute without affecting the rest of population (Elliott, 2002, p. 172). Comprehensive sanctions were abandoned in the second half of the nineties in light of their adverse humanitarian repercussions and were replaced by targeted sanctions (Elliot, 2010, p. 93). Nevertheless, the past decade witnessed a down toning of humanitarian considerations as senders increasingly resorted towards combining targeted sanctions with partial embargoes on specific sectors selected to affect the backbone of the target's economy (Portela, 2014, p. 5).

Economic sanctions can be classified based on the nature of both the sender and target. In cases where the sanctions episode involves a single sender, sanctions are termed 'unilateral' while they are termed multilateral if two or more senders are involved (Askari et al., 2003, p. 2). In multilateral sanctions, a single country – and in some cases more than a country – assumes leadership of the sanctions episode and instigates others to join the sanctioning efforts (Hufbauer et al, 2007, p. 43-44). The "instigator" is referred to as the 'primary sender' while the countries that joined the sanctioning efforts are referred to as 'secondary senders' (Drezner, 2000, p. 75). A subset of multilateral sanctions is related to the involvement of an international organisation (the United Nations) or a regional organisation (the European Union, the League of the Arab Nations, the Organization of African Unity etc...) as the sender which obliges member countries to comply with the imposed sanctions.

Based on the nature of the target, sanctions can be divided into 'primary' and 'secondary' sanctions. 'Primary sanctions' involves the sender country "restrict[ing] its own companies and citizens... from doing business" with the target while 'secondary sanctions' "involve additional economic restrictions designed to inhibit" citizens and companies of third countries "from doing business with a target" country (Meyer, 2009, p. 905). Secondary sanctions can also be referred to as 'extra-territorial sanctions' as it transcends the jurisdiction of the sender state and hence its practice is legally contested. Secondary sanctions are mainly applied by the United States and its practice dates back to the early period of the Cold War but dimmed during the 70s and made a resurgence in nineties with the Cuba-related Helms-Burton Act and the Iran-Libya Sanctions Act (Rodman, 2001). In recent years, Major European banks such as BNP-Paribas and Deutsche Bank paid heavy fines to the US Government for their violations of US sanctions against Cuba, Iran and Sudan (Russell, 2018, p. 3).

In classifying economic sanctions based on the sender's objectives from their imposition, sanctions are classified into two main categories, 'instrumental' and 'expressive'. Whereas instrumental sanctions imply that senders seek the target's compliance to their political demands, expressive sanctions entail a moral element in expressing disapproval of the behavior of the target country (Galtung, 1967, p. 411-412). Other scholars combine the two objectives for a single sanctions episode. Barber (1979) considers instrumental objective to represent the primary objective and expressive sanctions to represent secondary objectives and argues that throughout a lengthy period of economic sanctions, the weight of the different objectives will shift in favour of secondary objectives at the expense of primary ones. Daoudi & Dajani (1983) argue that they are different ranges of objectives beginning with expressive objectives such as

signaling disapproval, towards medium range objectives related to causing economic inconvenience to the target country and playing a demonstrative effect to third countries and ending with the long range objective of achieving target compliance which represents “the most sought after” yet “the least likely to happen” (p. 162).

Mirroring the sender’s objectives is the question of sanctions effectiveness in the sense of whether sanctions have achieved their desired objectives or not. Assessing effectiveness is complicated by the difficulty in determining the objectives of the sender between expressive and instrumental objectives, from one side, and the “difficulty in establishing a conclusive causal link between sanctions and compliance”, from another (Jones & Portela, 2014, p. 7). The “conventional wisdom” on sanctions efficiency adopts the “cost hypothesis” which stipulates that the target is more likely to concede the “more severe the economic measures” (Drury, 1998, p. 499) are the more the target has incurred costs by the sanctions. The HSE framework approximates the ‘cost hypothesis’ although, nevertheless, it does not provide a linear relationship between sanctions costs and compliance.

2.3 Domestic Mechanisms in the Target Country

Several frameworks address the mechanism through economic sanctions function within the target country. These frameworks can be broadly categorised into the ‘Institutional theory’ framework, frameworks that are based on the role of the politically influential groups, the ‘Inputs of Power’ framework, the ‘Social Conflict Analysis’ framework and the ‘Political Economy’ framework. This section will discuss and assess each one of these frameworks. The assessment in turn will act as a groundwork for developing the proposed theoretical framework.

2.3.1 The ‘Institutional Theory’ framework

The different papers that are embedded within framework are mainly influenced by De Mesquita et al.’s (2003) ‘Selectorate Theory’ and relate sanctions outcome with the size of the target’s ‘winning coalition’. The main tenet of the theory is that among those who have “a formal role in expressing a preference over the selection of the leadership that rules them” (the selectorate) there exist a subset (the winning coalition) “whose support is essential if the incumbent is to remain in power” (Mesquita et al., 2003, p. 57). The authors draw a distinction in the size of the winning coalition between democracies, in which the size of the winning coalition is nearly half of that of the selectorate, and authoritarian states in which tends to have a smaller size of the winning coalition as in single party states where the winning coalition is represented by party members who represent a fraction of the selectorate. Therefore, in relating the ‘Selectorate Theory’ to economic sanctions’ outcome, the main argument relates the likelihood of sanctions’ failure to the smaller size of the target country’s winning coalition. Therefore, authoritarian states are more likely to cope with international sanctions in comparison with democracies.

Different papers address different mechanisms that relate regime type and the size of the winning coalition with sanctions outcome. Bolks & Sowayel (2000) relate the failure of sanctions

with the ability of target states to develop relevant economic and political counter measures to economic sanctions. This ability to develop countermeasures, in turn, is related to the domestic environment of the decision making process. Therefore, an environment characterised by a narrow decision-making process, that lacks “institutionalized and competitive political processes” (p. 246), is more likely to endure the sanctions episode. Lektzian & Souva (2007) argue that authoritarian countries, in order to remain in power, rely primarily on “the distribution of private goods” (p. 852) to their small-sized winning coalition. Therefore, they are more likely to survive a sanctions episode in comparison with democracies who rely on the distribution of public goods which are more vulnerable to economic sanctions. Another mechanism which renders authoritarian states more resilient to economic sanctions than their democratic peers, is related to the former’s capacity in extracting rents from the transaction constraints associated with economic sanctions and in using those rents to increase political control over society (p. 852-854). Allen (2008) views the level of anti-government activity as mediating between regime type and sanctions outcome. The argument goes that anti-government activity is more politically feasible in democracies than in authoritarian countries. Therefore, democracies incur higher political costs from economic sanctions rendering them more likely to comply with senders’ demands.

These frameworks are tested through applying large N statistical analysis using the HSE dataset. However, the precise theorised mechanisms are not incorporated in the statistical analyses which rely on finding correlations between indicators of regime type and that of sanctions outcome. In Bolks & Sowayel (2000), the theorised countermeasures are not included in the statistical analysis. Instead, the statistical analysis measures the correlation between sanctions duration and the democracy score of target countries. Similarly, Lektzian & Souva’s (2007) statistical analysis does not address the role of rent seeking behavior, or the distribution of public goods in the failure of the sanctions episode, but it simply measures the correlation between sanctions success and the democracy score of the target countries. Allen’s (2008) statistical analysis, on the other hand, leaves out the sanctions outcome and measures the correlation between regime type and anti-governmental activity without addressing the impact of this activity on sanction’s outcome. The exclusion of the proposed mechanisms allows the different authors to claim finding evidence for different mechanisms based on finding correlation between similar dependent and independent variables. For example, in their critique of Bolks & Sowayel (2000), Lektzian & Souva (2007) refute the necessity for the target state “to manipulate the economy”, in order to survive economic sanctions, as the “lack of political accountability” renders such manipulation unnecessary (p. 853).

Institutional theories have further been criticised for applying a crude dichotomous variable (democratic vs. authoritarian) which ignores the differences among countries within the same regime type category. Blanchard & Ripsman (2008) argue that countries within the same regime type category differ in other institutional characteristics “including the autonomy of the state from society and the policy instruments at its disposal” which are deemed “critical” for the outcome of the sanctions episode (p. 377). Jones (2015) argues that regime type represents a

poor proxy for measuring coalition size giving the fact that “post-coup regimes often seek the broadest coalitions possible, not ‘minimum-winning’ ones” (p. 32).

2.3.2 Frameworks based on the role of politically influential social groups

Several frameworks (Public Choice, Microfoundations and neo-Weberian) stress the key role of politically influential groups in determining the outcome of the sanctions episode. Although these frameworks are based on different conceptions on the role of the state and state-society relations they share two main arguments; that economic sanctions have a different impact on different social groups within the target country and that these different social groups have different political influence to alter the target’s behavior.

The Public Choice approach assumes that different interest groups compete in a political market where the state plays the role of a neutral arbitrator among those different groups facilitating the clearance of the political market. The analysis initiates with an original pre-sanctions distribution policy which, in itself, is a result of a previous clearing in the political market. As economic sanctions affect both the income of competing interest groups and their political effectiveness, their demand curves for the redistribution policy are shifted accordingly resulting in a new market clearing equilibrium. Within this framework, sanctions success occurs when the outcome of the redistribution policy shifts in a direction in line with the sender’s demands (Kaempfer & Lowenberg, 2007, p. 885-887).

Kirshner’s (1997) Microfoundations approach differs from the Public Choice approach in relation to the role of the state and the influence of social groups. Rather than viewing the state as passively arbitrating the choices of different interest groups, Kirshner regards the state as possessing its “autonomous preference” (p. 45). Kirshner contrasts between ‘core groups’, with substantial political influence, and other groups who fail to demonstrate any political influence on the target state. Therefore, the impact of economic sanctions on the target country follows two channels: a direct channel where economic sanctions affect the central government, such as in the case where sanctions target the public budget, and, an indirect channel, where sanctions affect core groups who, in turn, use their political power to pressure the central government to comply ‘immediately’ with the sender’s demands. Therefore, Kirshner proposes to “disaggregating the target” and “differentiating sanctions” in order to assess the impact of each type of economic sanctions on the central government and the core groups. However, the Microfoundation’s approach concludes its analysis at this stage and does not elaborate on the interaction between the central government and the core groups and its impact on the sanctions outcome.

Blanchard and Ripsman (2008) maintain Kirshner’s two-channeled impact on the target state. However, they further elaborate on the interaction between the central government/leadership and social groups through introducing the concept of “Stateness”. Stateness comprises of three main attributes namely autonomy, capacity and legitimacy. Autonomy refers to the ability of the state to pursue specific foreign policy objective and strategies despite the potential domestic

opposition to those objectives and strategies. Capacity refers to the state's "ability to co-opt or coerce key societal groups" (p. 379) which depends on the availability of resources - whether financial or coercive (police force) - and their effective use of these resources (the existence an efficient bureaucracy). As for legitimacy, it indicates "the degree to which domestic groups acknowledge the leader's right to rule" (p. 379). As such, high levels of 'Stateness' are perceived to act as a buffer between state and society. A legitimate state with an autonomous foreign policy and high financial and coercive capacities can minimise the political costs of domestic dissatisfaction with its response to the sanctions episode. This applies to both channels in which sanctions may affect the target state. If economic sanctions adversely affect a politically influential group, the level of 'Stateness' would decide whether the disaffected social group can influence the sanctions episode's outcome (with a high level of 'Stateness' resulting in non-compliance to senders' demands) whereas if economic sanctions adversely affect the leadership, then a high level of 'Stateness' would imply that the target state would comply to senders' demands despite the potential opposition from domestic groups.

As a critical examination, the first two approaches assume a simplistic mechanism in which the target state responds directly to the pressure of disaffected social groups without pursuing any measures to minimise the economic and political costs of economic sanctions. In the case of Public Choice approach, this simplistic mechanism is derived from the flawed conception of the state acting as a neutral arbitrator simply complying with the equilibrium outcome determined in the political markets. In the case of the Microfoundations approach, it is based on another flawed assumption of the target country immediately responding to senders' demands once it is domestically pressured. This assumption even contradicts with his demonstrative empirical case (the case of US sanctions against Panama) where the initial reaction of Panamian leadership to economic sanctions was to attempt to please the country's core groups through redirecting the country's scarce resources towards them rather than complying to their pressure (p. 52). Blanchard & Ripsman's (2008) address these flaws, through introducing the concept of 'Stateness', and more specifically through its second attribute, capacity. Capacity implies that the target state uses its resources to modify its coercive and co-option mechanisms in a manner that minimises the political costs of economic sanctions. However, their conception of 'Stateness' as "emerg[ing] directly from state institutions themselves" fails to capture that these capacities are "(re)shaped and constrained by societal power relations" (Jones, 2015, p. 37). Thus, pitting the state against social groups represents a false dichotomy that bypasses the state's 'strategic selectivity' towards these groups. Overall, the concept of politically influential social groups is theoretically underspecified and fails to capture the whole political structure of the target, a problem that is exacerbated by the flawed conception of state-society relations among these different approaches.

2.3.4 Wintrobe's Dictatorship Model ('Inputs of Power' Framework)

Developed by Kaempfer et al. (2004), and extended by Escriba-Folche & Wright (2010) to incorporate sub-categories of authoritarian regimes, this framework draws from Wintrobe's (1990, 1998) dictatorship model which views the dictator's capacity to remain in power is based

on his consumption of the two inputs of power, repression and loyalty (p. 32). Kaempfer et al. (2004) incorporate “the type and magnitude of sanctions and the nature of opposition groups” (p. 32) into Wintrobe’s model. The outcome of the sanctions episode will depend on how these two incorporated factors affect the price and the consumption of these inputs and whether that “can alter the alignment of domestic interests and thereby generate a change in policy” (p. 30). To begin with, both the type of sanctions and its impact on opposition activity affect the dictator’s budget and, consequently, his consumption levels of repression and loyalty. The type of sanctions is assumed to increase the dictator’s budget the greater the impact of sanctions are on the target’s term of trade. The rationale for this argument is based on the assumption that rent opportunities are created in target country “by arbitraging between world prices and the terms of trade in the target country” (p. 38) and that “the target government... can capture a considerable share of the sanctions rents” (p. 38). On the other hand, an effective political opposition can constrain the dictator’s budget by constraining the target’s capacity for revenue collection (p. 39). The prices of these inputs are also affected by the type of sanctions and opposition activity. The price of loyalty is affected by the “distributional effects of sanctions across groups within the target country” (p. 40). “Groups close to the dictator would further increase their support for the regime in order to capture some of the sanctions rents for themselves” (p. 40) and thus reduce the price of loyalty. On the other hand, an effective political opposition, or even the mere perception that the dictator has been weakened by sanctions, increases the price of loyalty as the “individual’s expected rate of return” for displaying loyalty to the dictator increases (p. 40). Sanctions could increase the price of repression directly if repression-related material, such as surveillance software or military equipment, is on the sanctions list while an effective opposition increases the price of repression as more resources are diverted for law enforcement (p. 41).

Escriba-Folche & Wright (2010) critique Kaempfer et al.’s (2004) framework arguing that there are significant differences among authoritarian regimes in their response to economic sanctions. These differences, from one side, stem from differences in their revenue sources and, hence, in their vulnerability to sanctions-induced loss of income and, from another side, from differences in the “capacity of authoritarian rulers to vary their level of cooptation and repression in response to international sanctions” (p. 339). Based on these two different characteristics, they attempt to sub-categorise authoritarian regimes into personalist, single-party and military regimes. Personalist regimes are highly dependent on external revenue, such as foreign aid and taxes on international trade, which are used to fund their patronage networks. At the same, their state administration capacity tends to be weak and, therefore, they are unable to extract taxes from its citizens. Both military and single-party regimes are less reliant on external revenues. The main differences between the two sub-regimes is that single-party regimes, with their reliance on mass organisations, have a broader base rendering them reliant on spending on public goods for loyalty, from one side, and constrained in their resort to repression, from another. This contrasts with military regimes who are less constrained in their ability to resort to repression. Therefore, Personalist regimes are considered the most vulnerable to economic sanctions in light of their dependence on external revenue sources, the incapacity to

compensate the loss of external revenue with domestic revenue and the constraints on increasing repression for the fear that the military would turn against them. On the contrary, both single-party and military regimes incur less sanctions-induced revenue loss and are capable of increasing their expenditure on loyalty through increasing domestic taxes while military regimes can increase their levels of repression as well.

The 'inputs of power' framework presents an elaborate mechanism linking sanctions-induced economic deprivation with the target's political dynamics through assessing sanctions impact on the state's budget and the supply and prices of political power inputs. Furthermore, the original framework elaborates on the political dynamics within the target state through introducing the role of political opposition in determining the sanctions outcome. On the other hand, it omits the role of political influential groups in shaping the sanctions outcome simply viewing regime coalition dynamics as merely a dictator manipulating his co-optation and repressive strategies. Escriba-Folche & Wright's (2010) correctly improve the original framework through acknowledging differences among authoritarian regimes in their revenue sources and their capacity to manipulate the level of their inputs of powers, their sub-categorisation of authoritarian regimes appears problematic given the issue of hybrids between two or more categories blurring the original rationale for creating such categories. To elaborate on this issue, the 'single party' category entails (single party/ military) hybrid, (single party/personalist) hybrid and the (single party/personalist/military) hybrid whereas the (military/ personalist) hybrid is categorised within 'military regimes' and monarchic regimes are included within the 'personalist regime' category (p. 346). Empirically, their tests yield mixed results. Although they find evidence that both single-party and militarist regimes increase their tax revenue while personalist regimes decrease theirs, their results on changes in the level of repression and international revenue after sanctions are problematic (p. 341-345). Contrary to their theory's predictions, single-party regimes tend to increase their level of repression at a higher rate than military regimes albeit from an original lower level. Furthermore, as noted by Jones (2015), "the degree of personalist regimes' dependence on foreign aid is only marginally higher than for other regime subtypes" while "the main blow to personalist regimes actually comes from lost 'non-tax revenue'" (p. 34). The category of non-tax revenue is too aggregate to distinguish between revenue drawn from external resources (e.g. exports of natural resources) and revenue drawn from domestic resources (e.g. revenue from public sector establishments).

2.3.5 The 'Social Conflict Analysis' Framework

Jones (2015) introduces the 'Social Conflict Analysis' (SCA) framework, based on Poulantzas and Jessop's elaboration on Gramscian State Theory, to the study of economic sanctions. This framework is adopted as a response to the previous approaches' focus on state institutions and their flawed conceptions of the state-society relations which adversely affect the validity of their ensuing analyses. SCA's views economic sanctions as an intervening variable, rather than an "over-riding determinant" (p. 45), in the target's socio-political contestation for state power through its impact on the resources and strategies of the contesting sociopolitical forces, or more simply put, regime and opposition coalitions. Therefore, the outcome of the sanctions

episode is determined by whether “they strengthen those sociopolitical forces most closely aligned with the senders’ goals” (p. 2).

Jones’s conception of the state relies on Poulantzas and Jessop’s argument that the state possesses a positive role in “reproducing class domination” (Jessop, 1999, p. 46) in the sense that the role of the state is not limited to its resort to repression but it is rather “actively involved in... organizing hegemonic class unity within the power bloc; and in managing the material basis of consent among popular classes” (Jessop, 1999, p. 46) and represents a “social relation” or a “material condensation of the balance among class forces” (Jessop, 1999, p. 50) and thus rather than possessing “power of its own”, its power is derived from “the power of the class forces that act in and through the state” (Jessop, 1999, p. 50). This specific conception of the state carries several inter-related implications. To begin with, ruling regimes represent a coalition of “leading” and “subordinate” “socio-political forces” whose maintenance relies on the leading forces’ resort to various measures of co-optation and concessions vis-à-vis the subordinate forces. Therefore, states exhibit ‘strategic selectivity’, favouring some interests and strategies while marginalizing others” (Jones, 2015, p. 27) and are “structurally constrained by pre-existing social power relations and conflicts” (Jones, 2015, p. 40) and, as such, the state’s response to sanctions is constrained by its economic structure and social power relations.

Since SCA framework examines how economic sanctions intervene in the target country’s contestation of state power, the analysis is divided into three chronological steps. The first represents a baseline analysis that identifies the target country’s pre-sanctions sociopolitical contestation for state power and its underlying political economic context. The second step introduces the economic sanctions and assesses their immediate distributional impact across societal groups. The third and final step involves assessing the impact of economic sanctions on the contestation of power within the target country through assessing how sanctions impacted the composition, resources and strategies of the contesting coalitions and how these changes in turn affect the compliance or defiance to the sender’s demands (p. 45). The author identifies two inter-related mechanisms related to changes in “resources available to ruling groups” (p. 45) to finance their strategies as well as in society’s composition where the end result is determined by the political repercussions of these inter-related mechanisms on both ruling and opposition coalitions.

Through these dynamics, Jones contrasts between the case of South Africa, from one side, and the cases of Iraq and Myanmar, from another. In the case of South Africa, the growing autonomy of big businesses vis-à-vis the state was paralleled with the strengthening of black opposition allowing the former to reach out to the latter and thus breaking the ruling coalition and allowing an end to the apartheid regime which represents the objective of economic sanctions. Conversely, in the two cases of Myanmar and Iraq, the business class remained state dependent while the opposition was weakened by economic sanctions and the general population was thrown into passivity abandoning politics for the pursuit of their daily needs.

Examining the three case studies (South Africa – Myanmar – Iraq) can provide further insight into the inter-related mechanisms between the strategic response, resource availability and societal composition of both contesting coalitions. A main formula can be induced where the combined economic impact of sanctions themselves and their related response will yield specific political repercussions that will shape the sanctions outcome. In the case of South Africa, the economic response to the oil and arms embargo was through the pursuance of import substitution and self-sufficiency measures which, in turn, created a nexus of interest around domestic production and thus strengthened the ruling coalition. While in the case of Myanmar, the economic response to economic sanctions involved re-orienting the economy towards Asian countries and extractive industries. This economic pivot allowed for minimising the economic impact of economic sanctions and therefore, the military regime's transition strategy was constrained by reduced resources and thus sanctions prolonged the political stalemate within the country. Whereas in Iraq, the economic sanctions crippled state capacities and devastated the regime base which in turn led to significant concessions to UN demands.

The specificity of the South African case lies in the fact that the very same measures that strengthened the ruling coalition in the short run had the reverse effects on the long run. From one side, these self-sufficiency measures increased the dependency on black labour, and more specifically black coalminers, which in turn increased the political power of their representative unions. From another side, these measures facilitated Afrikaner businesses to outgrow their state incubator viewing self-sufficiency measures as a costly burden on the economy and having their interest diverge from that of the Apartheid regime. This caused a friction in the ruling coalition, with the culmination of economic and political crises during the eighties, leading big businesses to reach out to the empowered opposition.

Jones (2015) makes important contributions towards unravelling the mechanism of sanctions within the target country through identifying state-society relations and economic-political linkages in addition to stressing the intervening role of economic sanctions within the social contestation of state power. In terms of methodology, his adoption of detailed and well-informed case studies elaborates on the previous short-length case studies and the statistical analyses. Nevertheless, the focus on regime change as the sole objective from sanctions, although it meant to allow for comparison between cases, leaves out other objectives in which the target's decision to comply does not necessarily pass through its domestic politics. For example, the USSR's compliance towards Great Britain sanctions over the dispute over the imprisonment was based on international political calculations rather than the domestic politics of the USSR at that time (Blanchard & Ripsman, 1999, p. 221). Furthermore, it leaves out the mechanism that links domestic politics with foreign policy decisions unexplored. For example, in the issue of Iran's nuclear disarmament, Terhalle (2015) views the repercussions of Iranian "intra-elite infighting" not as a "source of Iran's sudden adjustment in 2013" but rather as a "realpolitik shift" from Iranian hardliners to "loosen the pressure" stirred by the tightening of economic sanctions (p. 602-603). Another point of criticism that can be drawn is that the analysis gives equal weight to both social coalitions (regime & opposition) in reacting to the

sanctions episode and thereby ignoring the centrality of the state in reacting to the sanctions episode and thereby the centrality of the regime in adjusting with the sanctions episode.

2.3.6 The 'Political Economy' Framework (Connolly, 2018)

In assessing the domestic mechanisms through which sanctions affect the target country, Connolly (2018) concurs with Jones (2015) that, rather than studying “formal institutional configurations”, it is necessary to address “the interaction of social forces” (Connolly, 2018, p. 22). Furthermore, he adopts the concepts of the ‘ruling coalition’, as an alliance forged between the ruling elite and other social groups through the use of specific resources, interests and strategies, and ‘state selectivity’ with its role in shaping the response to economic sanctions through “determining who wins and who bears the cost of adjustment” (p. 27). The embedded logic in Jones (2015) that relates the episode’s economic repercussions with its political repercussions is made more explicit with his focus on assessing the change in the country’s political economy after imposing sanctions.

His framework elaborates on the economic structure of the target country. The failure to incorporate the economic dimension in former studies is viewed as obfuscating the mechanism through which economic sanctions function. Thus, while understanding the domestic political impact of economic sanctions necessitates understanding the nature of social forces and struggles within the target country, addressing “the economic structure of the target country” represents “a good starting point” (p. 24). Such analysis addresses issues related to the sectoral composition of the economy, the sources of public revenue and employment, its level of technology, the nature of competition and the role of state-owned firms vis-à-vis private firms. This economic analysis acts a foundation for analysing the country’s system of political economy in terms of identifying the politically influential groups, the ruling elite strategies to co-opt other groups, identifying the “rules of the game” of whether the state provides “differential access to goods, services, and resources for individuals or organizations” or is “constrained by more intense competition between organizations” (p. 24). This, in turn, allows to understand the nature of social conflict within the target country (p. 24-25).

Connolly identifies the initial “manner” through which sanctions affect the target country as being shaped by its “pattern of integration with the global economy” (p. 26). This involves analysing the international economic relations of the target such as the country’s level of openness, its international trade and capital flows structures. The analysis seeks to address the more significant aspect of relating the target’s international economic relations with its domestic system of political economy and, more precisely, identifying “how the target country’s relationship with the global economy affects the distribution of power and resources among domestic organizations – both political and economic (p. 25)”. With the elaboration of this baseline analysis, the analysis could heed forth towards addressing the sanctions episode. This involves identifying the sanctions regime, identifying the target’s counter strategy and assessing the resulting change in the target’s political economy and its pattern of integration in the global economy.

Connolly (2018) applies this framework to the case of US and EU sanctions on Russia. His analysis focused on the centrality of the Russian state in both its domestic system of political economy - through rent redistribution “from globally competitive sectors of the economy” including gas, oil and the arms industry towards “other less competitive sectors of the economy” (p. 30) and “in dictating Russia’s terms of interaction with the global economy” rendering it in a “well position to formulate and implement” (p. 30) a counter strategy that focuses on developing domestic capabilities and redirecting foreign trade and diversifying foreign economic relations. Thus, the impact of economic sanctions on Russia’s political economy was to “reinforce the prevailing system of political economy” (p. 195) in the sense that the rent distribution system from the globally competitive sectors towards uncompetitive sectors remained intact and thus the economic and political costs of economic sanctions were significantly reduced. While his theoretical framework discusses in more detail the co-optation policies that the target state pursues in response to economic sanctions and the political repercussions of the sanctions episode, his analysis in the case study is restricted to regime’s strategies relating directly towards mitigating the economic impact of economic sanctions. This even contradicts with his preliminary study, Connolly (2016), where he refers to increases in state spending levels, as a deliberate means to protect the regime core constituencies such as pensioners and civil servant, following the imposition of the sanctions (p. 767).

To conclude, domestic mechanism frameworks in the target country have developed from identifying rudimentary mechanisms and simplistic notions of institutional characteristics towards making greater contribution towards unraveling the black box within the target country. In comparing the latter developed SCA and ‘Political Economy’ frameworks with the earlier frameworks, we can note a methodological shift from Large N statistical analyses and concise case studies towards in-depth case studies. In line with this methodological shift, there is a maturation in identifying the mechanisms linking economic deprivation with political change and in providing a more profound understanding of state-society relations from crude institutional dichotomies (authoritarian vs. democracies or high/low levels of stateness) and simplistic notion of state-society relations (the neutral arbitrator, the state as opposed political groups) providing a more profound understanding of state-society relations.

2.4 The International Factors of the Sanctions Episode

International factors affecting the outcome of the sanctions episode entail all “factors external to the target state” (Bolks & Sowayel, 2000, p. 244). This includes both senders-related factors as well as factors related to the third countries’ behavior. This section will address both factors separately and summarise with a common conclusion.

2.4.1 Senders’ attributes

The literature on economic sanctions has identified several factors related to the role of the sender that contributes towards shaping the sanctions outcome. These include the sender’s political and economic leverage towards the target, the design of the sanctions package and

issues related to the implementation of economic sanctions such as monitoring and enforcement by the sanctioning authorities and the level of compliance by private agents within the sender country. The role of economic and political leverage is addressed by Hufbauer et al. (1990, 2007) and Drezner (1999). Hufbauer et al. (1990, 2007) regard trade linkages between the sender and the target, measured as the percentage of the target's overall trade, to be an important variable in shaping the sanctions outcome with higher percentages increasing the likelihood of success. The leverage of trade linkages applies even if the sender imposes "minor sanctions" as it "carries the implicit threat of more drastic action" (2007, p. 62). In addition to economic leverage, Hufbauer et al. (1990, 2007) regard the political relations between the sender and the target prior to the sanctions episode to be another important variable in determining the success of the sanctions' episode. The target is more likely to concede if it has amiable relations with the sender given that it "will often consider the importance of its overall relations with the sender country before responding to economic sanctions" (2007, p. 60). The authors exemplify the cases of South Korea and Taiwan dismantling their nuclear programs, under the mild pressure from the US, their international patron, on how such leverage functions. Drezner's (1999) 'Conflict Expectation' model integrates both sources of leverage. His model is based on the assumption that compliance to the sender's demands involves a "reputational cost" which will weaken the target's bargaining position in future conflicts. In an adversarial relationship, where expectations of future conflict are high, it will take the target a very high gap in costs – the difference between the costs incurred by the target and sender - in order to make a partial concession to the sender. On the other hand, the reputational cost becomes negligible when an amiable relation exists between the sender and the target and therefore the target will more likely comply at lower cost differentials.

The role of the sanctions design in determining the sanctions outcome addresses the type of sanctions applied, their level of comprehensiveness and the speed of their imposition. HSE's 'conventional wisdom' advocates imposing comprehensive sanctions that encompass all types of sanctions (import, export and financial sanctions) and to be imposed at once rather than incrementally (Hufbauer et al., 2007, p. 168-171). This view has been contested by various scholars (Kaempfer & Lowenberg, 1988; Morgan & Schwebach, 1997) arguing for the need of targeting the politically influential for sanctions to yield a positive outcome and thus providing the theoretical rationale for imposing targeted sanctions. However, the various empirical examinations of targeted sanctions provide more evidence to the effectiveness of comprehensive sanctions in comparison to targeted sanctions (Biersteker et al., 2016; Cortright & Lopez, 2002; Elliott, 2002).

The final attribute of the sender is related to the enforcement of economic sanctions and addresses both "the competence factor" in terms of the capacity "to detect offences and to apply and enforce sanctions" (Doxey, 1972, p. 535) as well as the willingness of the sanctioning authorities to enforce the sanctions regime. This topic has rarely been addressed in sanctions literature and has been restricted to the works of Doxey (1972, 1980) and Mack & Khan (2000) at the multilateral sanctions level (UN sanctions) and to a few studies at the unilateral level (country as a sender) (Morgan & Bapat, 2003; Bapat & Kwon, 2015; Early & Preble, 2018). At

the UN-level, Doxey (1980) refers to the several enforcement challenges which undermine the likelihood of success including the difficulties in coordinating among different countries, the issue of “legislative non-competence” (p. 102) among member countries and the difficulty in devising their “own of procedure” (p. 103) and in “verify[ing] the true source of imports” (p. 101). Mack & Khan (2000), on the other hand, address the question of willingness and argue that “the level of resources allocated to monitoring, assessing and enforcing is function of the degree to which the perceived interests of major powers” (p. 283). Therefore, he contrasts between the case of Iraq, where the high interests in enforcing sanctions led to the dedication of plenty of resources, and the cases of Rwanda and Somalia where the absence of such interests led to modest allocation of resources for sanctions’ enforcement.

At the unilateral level, Morgan & Bapat (2003) and Bapat & Kwon (2015) view the sender state’s willingness to pressure its own firms in order to cease economic exchange with the target as the core element of the sanctions episode which shapes its outcome. As such, both papers address the dynamics between the state and firms within the sender country with the former addressing the firms’ calculations for complying and latter addressing the state’s enforcement calculations. Considering that economic exchange takes place mainly between private firms, rather than between states, leads Morgan & Bapat (2003) to argue that firms choose between abiding and evading sanctions based on a cost-benefit analysis. The choice involves the amount of economic exchange they pursue with the target country, from one side, and the probability of getting caught and the amount of the fine, from another. On the other hand, Bapat & Kwon (2015) view that the cost benefit analysis is carried out by the sender state. Given their need to balance between the political goal of coercing the target, through imposing sanctions, and appeasing the economic interests of the firms in continuing to trade with the target, this balancing act might lead to a situation where sanctions are imposed but enforced. Finally, Early & Preble (2018) examine the various techniques of detecting and punishing that the US sanctioning authorities pursues against firms and how these techniques change with changes in the US Administration. The authors distinguish between the “‘fishing’ strategy of pursuing many enforcement actions resulting in small fines during the Bush Administration” and “a ‘whale-hunting’ strategy of pursuing fewer cases that instead led to substantially larger fines during the Obama Administration” (p. 5). Nevertheless, the authors fail to illustrate the impact of such changes on target’s compliance.

2.4.2 Third Countries’ Response

Third country response towards a sanctions episode has been typically classified between countries that decide to cooperate with the sender and join the sanctions episode (secondary senders) and countries that seek to undermine the sanctions episode (sanctions busters). On the other hand, Early (2006) offers a wider spectrum of third county responses. Sanctions busters are further divided between countries that endorse the act as an official state policy and countries whose private agents simply exploit the new economic opportunities created by sanctions. Whereas secondary senders are further divided between strong and weak enforcers of the sanctions regime. In addition to a range of neutral responses including third countries

who may “passively support the sanctions regime” through “not seek[ing] to exploit the economic advantages available to them” (Early, 2006, p. 18).

The literature on **international cooperation** with the sender is characterised by an “empirical puzzle” (Drezner, 2000, p. 73). The puzzle, guided by the cost hypothesis, is derived from the failure to find robust empirical evidence that cooperation with the sender will increase the likelihood of sanctions success. Hufbauer et al. (2007) consider it “axiomatic that more co-operation is better than less” (p. 59) given that increased co-operation would “deny the target country access to the supplies or markets of its principle trading partners” (p. 57). However, contrary to their axiomatic assumption, neither their empirical findings nor the subsequent statistical analyses, which rely on their dataset, find any evidence for that (Lam, 1990; Dehejia & Wood, 1992; Bonneti, 1998; Drury, 1998; Drezner, 1998). Conversely, international cooperation is found to be negatively correlated with sanctions success although rarely at a statistically significant levels².

Attempts to resolve this empirical puzzle involved both proposing several explanations to the puzzle and seeking more plausible results through changing the empirical specifications of international cooperation. The explanations addressed issues related to the bargaining process, the enforcement process and the impact of multilateral sanctions on the target. To begin with, Hufbauer et al. (1990) and Drezner (2000) argue that the main sender seeks cooperation when facing an obstinate target and thus cooperation is correlated with deadlocked episodes. Drezner (2000) adds that the very “bargain to secure international cooperation undercuts the ability of the primary sender to strike a bargain with the target country” (p. 81), a situation that leads to bargaining inflexibility between the senders’ coalition and the target country and eliminates the possibility of mid-solutions leaving the target country between the choice of total compliance or facing a deadlock on the disputed issue. Drezner (2000) also pays attention to the problems related to the enforcement of multilateral sanctions which he views as a ‘collective action’ similar to “the prisoners’ dilemma” (p. 83). Therefore, “even if all actors are better off with the imposition of multilateral sanctions, individual actors are even better off if they unilaterally defect while everyone else cooperates” (p. 83). This situation encourages defection from sanctions’ coalition among secondary senders leading to overt engagement in commercial activities with the target country. Kaempfer and Lowenburg (1999) focus on the impact on the target country and argue that in contrast to unilateral sanctions where the resulting economic rents are dispersed among a large number of countries multilateral sanctions concentrate rents within the target state and therefore enhance the government’s control on the distribution of goods.

On the other hand, more plausible results have been reached with the change in the dataset, the empirical specification of international cooperation and the inclusion of the ‘international organisation’ variable in the statistical analysis. Morgan et al. (2009) rely on a more recently developed dataset “Threat and Imposition of Economic Sanctions” rather than the HSE dataset.

² Only in Drezner (1998) is the negative correlation result found to be statistically significant

However, Similar to Hufbauer et al. (1990), they apply simple correlations between cooperation and sanctions success and find that “multilateral sanctions were successful 55% of the time while unilateral sanctions were successful 40% of the time” (p. 103). On the other hand, McLean & Whang (2010) rely primarily on the HSE dataset, but rather than measuring cooperation as a binary variable, they compare the change in the target’s major partners’ level of trade, before and after the sanctions episode, and find that major trading partners joining the sanctioning coalition has a positive and statistically significant impact on sanctions success. Several scholars (Martin, 1992; Drezner, 2000; Hufbauer et al., 2007) have proposed that the involvement of an international organisation can overcome the aforementioned co-ordination problems between senders through the involvement of international organisations. Empirically, Drury (1998) incorporates the presence of an international organisation, as a binary variable, in his extended model and finds that “when international institutions are involved in the cooperative effort, the [original] negative effect [of international cooperation] is reversed” (p. 505).

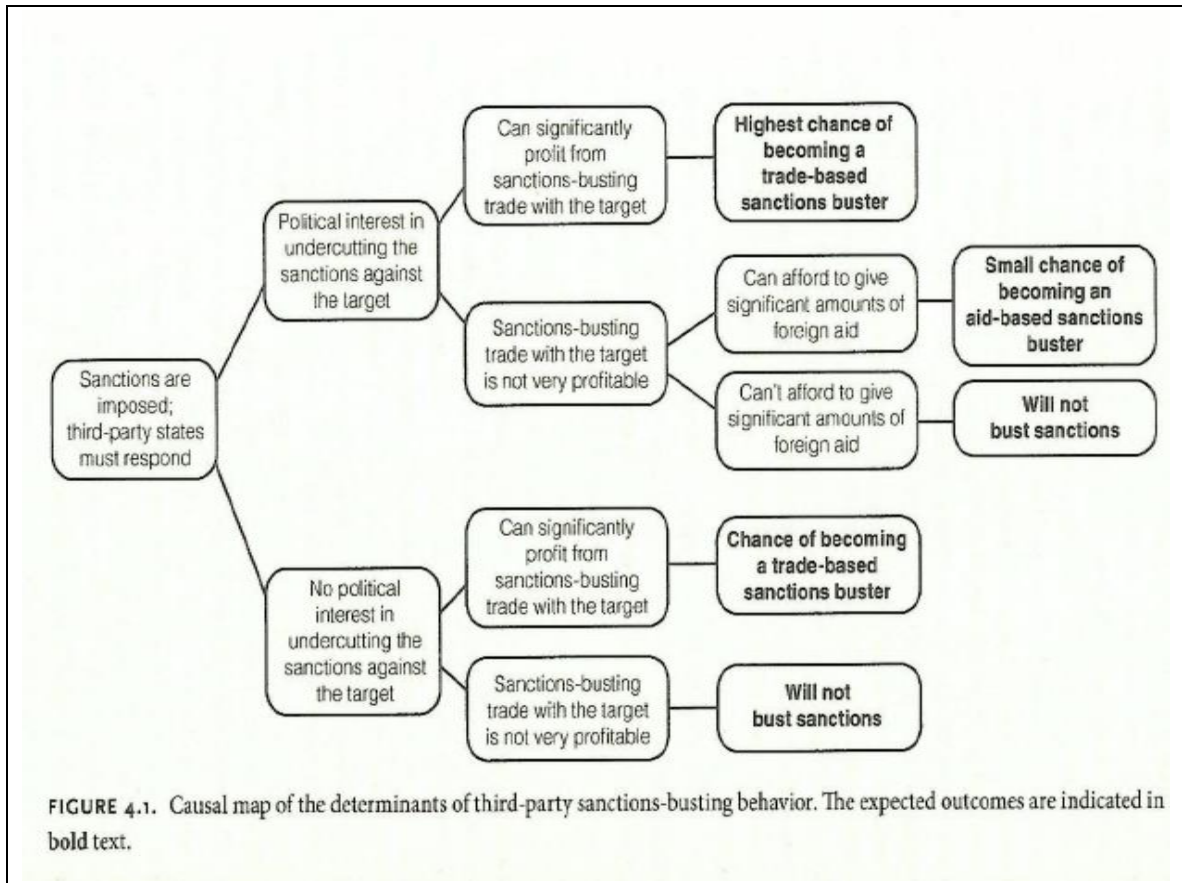
In contrast to the literature on international cooperation, which remained confined to the assumptions of the HSE orthodoxy, the literature on **sanctions busting** transcends this orthodoxy in light of the various contributions of Bryan Early (2006, 2009, 2011, 2015). Early critiques HSE’s theoretical under-specification and crude empirical operationalisation of the concept of sanctions busting. This critique, in turn, contributes towards a more complex understanding of the nature of sanctions busting. Drawing from the case of Soviet assistance to Cuba, Hufbauer et al. (1985, 1990) stress the underlying political motivation of the sanctions busting phenomenon labeling such busters as “Black Knights”. Their main argument is that a generous sanction busting package that can undermine a sanctions episode is associated with third countries who possess an underlying political motivation to undermine the episode. Without such underlying political motivation, the target country would only receive covert assistance which is deemed as a natural part of sanctions episode and hence has no significant impact on undermining the episode. However, Hufbauer et al. (1985, 1990) neither make the case of why overt assistance is restricted to countries with political motivation nor provide a clear specification of what constitutes political motivation. In line with the theoretical under-specification of sanctions busting, its empirical operationalisation was reduced to a dichotomous variable of whether the target received assistance or not without any reference to quantity of assistance, the number of countries involved in sanctions busting, the channels in which sanctions busting takes place or the duration of the busting process. These theoretical and empirical assumptions represented the groundwork in which the **subsequent large N statistical analyses** would be based upon. These various regressions would yield results with the expected negative sign but with mixed results in terms of its statistical significance³.

³ Lam (1990), Dehejia and Wood (1992), Bonetti (1998) and Lektzian & Souva (2007) would find the coefficient to be statistically significant while van Bergeijk (1994), Drury (1998), Nooruddin (2002) and Drezner (1998) would not.

Early's various works on sanctions busting challenged the centrality of the HSE politically-motivated 'Black Knights' in representing the prime motivation behind sanctions busting and in its primary role in undermining the success of the sanctions episode vis-à-vis commercially motivated sanction busting. To begin with, Early (2009) addresses HSE's theoretical under-specification of the sanction busting phenomenon by developing a clear criterion for assessing the motivations of the sanctions buster. Politically-motivated sanctions busters are third countries that either have a defensive pact with the target or are rivals with the sender. On the other hand, a commercially motivated sanctions buster implied is more likely to occur if the third party has a large and an open economy and shares a colonial past and exhibits high trade shares with the target. The theoretical specification allows for statistical testing of both the motivations and the effectiveness of different types of sanctions buster. In both cases the centrality of Black Knights is undermined. In case of the underlying motivation, Early (2009) finds more evidence that sanctions busting is commercially-motivated, rather than politically-motivated, arguing that US allies such as Canada and Germany represent the main sanctions busters to US sanctions. In terms of effectiveness, Early (2011) finds statistical evidence that the joint efforts of the two types of sanctions busters are successful in undermining a sanctions episode while failing to find any statistical evidence when the analysis is restricted to 'Black Knights'. In terms of **empirical specification**, sanctions busting was reconceptualised to incorporate time and level variance through changing the 'unit of analysis' from the episode level to the year level (Early, 2009, p. 58; Early 2011, p. 389).

These challenging findings which undermine the centrality of 'Black Knights' in both the motivation behind sanctions busting and in undermining the effectiveness of sanctions led to redefining the question of sanctions busting away from the original dichotomy of commercial vs. political motivations towards adopting an explanation based on the interplay of profit seeking individuals and government policies which shapes both the level and the type of sanctions busting (trade based vs. aid package). Thus, whereas profit seeking individuals are motivated by the profitability of trade with the target, third country governments' behavior is shaped by whether they have a political motivation to undermine sanctions and by whether they have available resources to offer a foreign aid package. The outcome of the interplay between the two players is illustrated in the figure below:

Figure 2.1 Early's (2015) Causal map of the determinants of third country sanctions-busting behavior



Source: Early (2015), p. 64

Sanctions busting will not occur in the case that there is neither a political interest nor commercially profitability in sanctions busting or in case that where that there a political interest but neither the commercial profitability nor the affordability of providing aid. Trade-based sanctions busting will occur if it is profitable to do so whether on the government level there is an interest or not. On the other hand, aid-based sanctions busting will only occur with the combination of three condition: the existence of political interest, unprofitability to trade and affordability for aid provision.

To conclude, international factors pertinent to the sanctions episode involve factors related to the sanctions regime and senders attributes and those related to third countries. Within the first category, a distinguishing can be made between sanctions design and sanctions implementation which takes into account the level of the sender state's enforcement and sender firms' compliance. The role of third countries has generally been divided between sanctions busters and those who cooperate with the sender. The literature on cooperation with the sender raises a puzzle which contradicts with the sanctions conventional wisdom and tries to resolve either through re-examining data and the statistical modelling or through attribute some

characteristics to the target obstinance or the impact of multilateral sanctions on rent generation within the target country. The literature on sanctions busters examined both its motivation and effectiveness between develops in its understanding of the phenomenon. Both types of international factors have been examined within the confines of the cost hypothesis through relating sanctions success with the economic damage imposed on the target and, as such, confined to the state level analysis. The several contributions of Bryan Early to the question of sanctions busting enhanced the understanding of the phenomenon's underlying dynamics within the third country, its different types and its impact on the target even though the analysis has remained confined to the cost hypothesis and, hence, does not elaborate on its impact on the mechanisms within the target country.

2.5 The Interaction between domestic and international factors

Early notions of domestic international interaction can be traced to Knorr (1975) and Green (1983). Knorr (1975) considers the target's "turning to third countries" as the key determinant in the failure of economic sanctions arguing that sender country fail to possess "sufficient market power to prevail" (p. 153) and therefore urging third countries for either political or commercial motivations to interevne for the benefit of the target country. However, and drawing from Galtung's (1967) notion of the target state as a "self-reinforcing mechanism", he views this external factor to be predicated upon the domestic condition of the target country possessing "a strong and undivided government" (p. 154). On the other hand, Green (1983) reverses the aforementioned logic as rather than viewing domestic cohesion as the political basis for effective sanctions busting he views sanctions busting as the economic basis for the success of domestic rallying tactics. This logic is derived from his criticism of Galtung (1967) where he utilises the concept of embargoed crucial commodities, such as oil products, to accuse him of downgrading the role "underestim[ing] the material basis upon which all modern states depend" (p. 81). Accordingly, "no degree of self-reinforcement will produce needed commodities which might be denied a target state" and therefore "without alternate trading arrangement no degree of national unity could sucessfully be mobilised" (p. 64).

Later references for the nature of interaction between domestic and international factors in shaping the outcome of the sanctions episode (Guijarro Usobiaga, 2015; Jones 2015; Connolly 2018) draw closer to Green's notion than that of Knorr's. **Guijarro Usobiaga's (2015)** model falls within the 'Institutional Theory' framework which relates sanctions outcome with the size of the target's winning coalition and tests the model using large N statistical analysis⁴. The international variable addressing third country sanctions busting – termed as 'Black Knights' – is part of his alternative explanations, among other variables, to his 'winning coalition' hypothesis. However, unlike other alternative variables, Guijarro Usobiaga (2015) does not incorporate the 'Black Knights' variable in his large N statistical multiple-regime model due to measurement

⁴ However, rather than relying on a simple authoritarian/democratic binary, his model distinguishes between into four regime types namely, "monarchies, military, single-party and multi-party" (p. 54) with each assumed to vary in winning coalition sizes.

challenges⁵ and, alternatively, incorporates the variable in his supplementary qualitative case studies which are intended to “exemplify how the size of the winning coalition constraints and shapes a regime’s policy response” (p. 226) through addressing both cases that confirm his framework (failed outcome/narrow winning coalitions) and others that refute it (failed outcome/large winning coalition)⁶. His main argument is that favorable international factors, in the form of sanctions busting, can compensate for unfavorable domestic conditions embodied in what he terms as ‘weak regimes’ (multi-party & single party regimes) with larger coalitions. However, his analysis in most cases is generic and lacks rigorous economic analysis and fails to explain precisely why sanctions busting is insufficient in cases confirming his model and sufficient in outlier cases⁷. One exception to the generic analysis is the case of Belarus where Guijarro Usobiaga provides an elaborate analysis of the Belarusian political economy demonstrating how its “Soviet-style welfare state” (p. 242) is maintained by the various channels of Russian support including subsidised energy imports, re-exporting Russian oil/gas to Europe and opening the Russian market for Belarusian exports. Therefore, similar to Green’s (1983) logic, Russia’s role in the survival of the Belarussian regime is related to its role in maintaining the country’s political economic system and thus maintaining the regime’s co-optation strategies related to providing high economic growth, employment opportunities and generous pensions.

The SCA framework adopted by **Jones (2015)** does not explicitly address international factors in explaining the sanctions episode outcome, nevertheless, by examining the three case studies the role of international factors are implicitly accounted for in the analysis and, depending on the case study, are embedded within different steps of the SCA’s three-step analysis⁸. International factors include both factors related to the sanctions regime such as the change in the sanctions regime and the level of compliance and the role of third parties in undermining the sanction regime whether through facilitating the redirection of the target country’s exports or facilitating the procurement of sanctioned imports. Overall, these international factors interact with both the original material impact of economic sanctions and the strategic

⁵ These measurement challenges are related to challenges associated with quantifying the various methods in which sanctions busting may take place. As in addition to sanctions busting through trade, the target country can receive diplomatic, military and financial support from third countries.

⁶ Cases that confirms his model are the case of EU sanctions against Myanmar, the joint case of EU, Australia, NZ sanctions against Fiji which are both classified as narrow military regimes with failed outcomes while outlier cases that his model fails to explain include the cases of EU sanctions against Belarus and Zimbabwe, both classified as multi-party regimes with failed outcomes.

⁷ For example, he does not illustrate why Chinese support was central to Mugababe’s survival in Zimbabwe while insufficient to the survival of Myanmar’s military junta apart from referring to Myanmar’s status as a closed country and its suspiciousness of external interference.

⁸ In the case of Myanmar, addressing international factors takes place within SCA’s second step of assessing the material and distributional impact of economic sanctions as this assessment is embedded with assessing the country’s “re-orientation of trade towards Asia”. As for the two other cases of Iraq and South Africa, incorporating international factors takes place within the third step where the strategic responses of both regime and opposition coalitions are assessed.

responses of regime and opposition coalitions. The resulting interaction create specific political repercussions within the target country which, in turn, affects the sanctions outcome.

To begin with changes in the sanctions regime, the easing of Iraq's original comprehensive sanctions regime with the adoption of 'Oil for Food Program' in 1995 partially revived the country's devastated public sector as government-controlled oil exports were resumed. Politically, this facilitated curtailing the power of groups that emerged during the original sanctions regime, such as smugglers and landlords, while partially restoring the regime's original support base (p. 160-161). As for the level of compliance, the low level of compliance in the case of South Africa or the "fakery of multinational divestment" (p. 76) played a role in empowering the opposition as it strengthened the negotiating power of black trade unions who managed "to extract concessions from employers" through "threaten[ing] further campaigns, to force multinationals to genuinely disinvest" (p. 76). More significantly, in the case of Iraq, the decreasing level of compliance towards UN-mandated sanctions among regional countries beginning with illicitly re-exporting Iraqi oil and, later on, shifting towards official backsliding further strengthened the role of the Iraqi public sector and, hence, the ruling coalition.

Third countries' sanctions busting interact with domestic factors in several manners. The target's exports could be either re-directed from the sender to a third country, as in the case of South Africa's redirection of exports to both African and Asian countries and Myanmar's redirection of gemstone exports to China and garment export to Japan, or can be transshipped to the sender through third countries (as in the case of Myanmar's timber and gemstones exports to Singapore) (p. 79, 107-108). This could wither near-nullify the initial economic impact of sanctions and preserve the existing political dynamics in the target country or mitigate the economic costs of sanctions and therefore constrain rather than tarnish the regime's coalition building strategies. The second applies to the case of Myanmar the mitigation of economic costs caused by sanctions busting constrained rather than tarnished its transition strategy towards 'disciplined democracy' and therefore its ability "to cultivate support for its transition strategy" was undermined "by weakening its performance legitimacy and constraining available resources" (p. 116). Third countries could facilitate the target country's counter-sanctions strategies through providing the necessary embargoes input and material. This applies to the case of South Africa's objective in achieving self-sufficiency in both its oil and arms industries, through relying on third countries' imports of necessary input and material, which in turn reinforced the regime coalition (p. 67-71). Third countries could also contribute to the shift in the country's economic structure and, thereby, create new political dynamics with different implications on outcome of the sanctions episode. Within the context, the shift in trade from the EU towards its regional sphere stirred a significant adjustment in the structure of the economy with the shift from labor-intensive towards extractive industries. This weakened the regime's capacity to integrate ethnic minorities within the system given that extractive industries were concentrated in minority-populated areas creating discontent with the associated "land grabs and forced displacement" (p. 118).

In **Connolly (2018)**, the interaction of the international factors with the target's domestic political economy becomes more nuanced as the objective of "Cultivating closer economic relations with non-Western countries" is regarded as a component of the Russian response to western economic sanctions alongside the component of import substitution. As such, Russia's overall objective of achieving import substitution, enhancing domestic capabilities and Russification, rather than stirring a process of "deglobalization" leads to a process of "reglobalization" (p. 197) with the international economic interaction in "strategically important sectors" (p. 127) arranged with "more politically reliable partners" (p. 141). Therefore, diversifying Russian foreign economic policy played a role in buttressing its strategy of developing its domestic capabilities⁹.

In conclusion, the unraveling of the implicit and peripheral references to the interaction between international and domestic factors in shaping the sanctions outcome allows for reaching the following remarks. International factors (e.g. re-directing exports to a third country) can mitigate the economic impact of economic sanctions and, therefore, maintain the country's domestic system of political economy and mitigate its political repercussions leading to the undermining of the sanctions episode. International factors (e.g. import of crucial embargoed goods from third countries) can assist the target country to achieve its counter strategies (e.g. import substitution strategies) thus either maintain its system of political economy, or create a modified system that co-opts more social groups under the regime coalition, and therefore undermining the sanctions episode. Finally, international factors can contribute to the modification of the structure of the target economy resulting in unforeseen political repercussions with unpredictable implications on the sanctions outcome.

2.6 The Theoretical & Methodological Frameworks

2.6.1 The outline of the theoretical framework

The literature review demonstrates that in-depth single case studies can better capture the mechanisms through which sanctions function within the target country in comparison to statistics analysis or concise multiple case studies given the sanctions causal complexity and its inter-dependence on the target country's political economic context. The proposed framework will restrict its analysis to sanctions episodes where target regime change represents its main objective given that the existing literature has not sufficiently elaborated on the target-level domestic mechanisms related to other objectives.

Overall, the proposed theoretical framework concurs with Jones (2015) that economic sanctions act as an "intervening variable" in the political dynamics of the target country through its impact on the resources and strategies of the contesting sociopolitical forces - and takes the argument

⁹ In the two sanctioned sectors (oil and defense), diversifying economic relations covered the supply of equipment and other production inputs, attracting non-Western sources of foreign capital and creating new foreign markets for Russian products. China emerged as a key equipment suppliers to Russia, a key importer of Russian oil and defense industries and a key provider of finance for Russian energy firms.

a step further arguing that the combined impact of sanctions regime's implementation, the behavior of third parties and the "strategic response" of domestic social forces reshapes the country's domestic system of political economy – through its impact on its pattern of integration in the global economy. This, in turn, affects the strategies of the conflicting powers and contributes towards shaping the outcome of the sanctions episode.

As such, one of the main contributions of the proposed theoretical framework is the integration of the international factors of the sanctions episode, related to the roles of both sender and third countries, into a target-level domestic mechanism framework. International factors can be adjoined to Jones's (2015) "inter-related mechanisms" of target country-level strategic responses, resources and societal composition. More specifically, international factors can either impede or facilitate target-level actors' strategic responses, compensate or reinforce sanctions-induced resource deprivation or contribution to maintaining or altering the target country's societal contribution.

Inter-relating the political repercussions of the sanctions episode with its economic repercussions can be best captured through utilising Connolly's (2018) concepts of the 'target country's pattern of integration with the global economy', 'the domestic system of political economy' and inter-related them with Jones's (2015) concept of 'social contestation for state power'. The change in the country's domestic system of political economy represents a new platform through which social contestation takes place given the alteration of the available resources, the coalition-building techniques and the responses of the key social groups to such techniques. While predictions are difficult given the unforeseen nature of the political repercussion of the sanctions episode, the outcome of the sanctions episode can mainly be attributed to two factors: the nature of the reshaped domestic system of political economy and the nature of the political opposition.

The proposed framework undertakes the following steps: It begins with assessing the three inter-related aspects of the target country's political and economic structure, its pattern of integration in the global economy, its domestic system of political economy and its social contestation of state power, prior to the sanctions episode. Afterwards, it discusses the sanctions regime in terms of the senders involved and the types of sanctions imposed. Finally, it analyses how these three inter-related aspects of the target country were affected by the interaction of the set of intervening variables; namely, sanctions implementation, third country response and the "strategic response" of domestic social forces and how it affected the outcome of the sanctions episode.

Given that the sanctions episode represents an intervening variable, or a set of intervening variables, rather than an "over-riding determinant" (Jones, 2015, p. 45) of the target's domestic politics, its impact is shaped by the overall context with different outcomes emerging from the change in the overall context. This applies even within the same sanctions episode where a change in any of the international or domestic setting can lead to a change in the intervening

impact of economic sanctions. This context-specificity implies, that the assessing the intervening role of the sanctions episode should be carried out for each bounding context separately.

As the existing literature does not address thoroughly the role of sender countries' attributes in shaping sanctions outcome, the current framework will draw from the existing literature without adopting a specific pre-existing framework. It will view the overall activities of the sender country as an interaction between the activities of the sender state and that of non-state actors which, in turns, leads to a divergence between sanctions design and sanctions implementation. Regarding third countries' response to the sanctions episode, this framework will utilise Early's (2006) concept of spectrum of responses ranging from joining the sanctions coalition to sanctions busting and addressing in-between responses such as providing passive support to the sanctions regime. Furthermore, the framework will adopt Early's (2015) framework in which the level and type of sanctions busting is the result of the interaction between the political interests of the state and the commercial interests of non-state actors non-state actors.

In terms of the target domestic level of analysis, the theoretical framework will adopt Jessop/Poulanzas conception of state-society relations where ruling regimes represent a coalition of leading and subordinate socio-political forces. Regime coalitions are maintained through the resort to the various measures of "coercion, co-optation and concessions" rendering the ruling elite "structurally constrained by pre-existing social power relations" (Jones, 2015, p. 40). Overall, the analysis will focus on the strategic responses of domestic social forces namely the regime, the opposition and the key social groups. Special emphasis will be given to the strategies of the ruling regime given that it represents the main actor targeted by sanctions and its control of the state apparatus implies that it is main actor that adjusts in response to the sanctions episode. Therefore, the framework distinguishes between the target's counter sanctions strategy and regime coalition building strategies, from one side, and between the designed strategies and the implementation of those strategies, from another, due to the dual international and domestic structural constrains that the target state confronts.

6.2.2 The methodological framework: Process Tracing

Given that the proposed theoretical framework addresses single case studies that involve a causal process with complex interactions among its variables, the framework's conceptualisation and operationalisation can be best captured through adopting a 'process tracing' methodology. Process tracing refers to "attempts to identify the intervening causal process—the causal chain and causal mechanism—between an independent variable (or variables) and the outcome of the dependent variable" (George & Bennett, 2005, p. 141). The methodology is based on the underlying assumption "that a plurality of factors work together to produce the outcome of interest" necessitating the need to "search for configurations of causal conditions or social mechanisms and it tries to reveal the details of the "causal pathways" that lead to the outcome of interest" (Blatter, 2012, p. 6). In other words, Process Tracing assumes "a mechanistic ontology of causation" (Beach and Pedersen, 2013, p. 39) in which "causal forces

are transmitted through a series of interlocking parts of a causal mechanism to produce an outcome” (Beach & Pedersen, 2013, p. 40).

This allows for the capturing of complex forms of causality that transcend the assumptions of linearity and unit homogeneity as discussed by Waldner (2012):

“Possible incarnations of causal complexity are equifinality or multiple causes of an outcome; temporal dependence, where the causal effect of a variable changes over time; interaction effects, where a variable causes one outcome in some cases but a very different outcome in other cases; endogeneity, where outcome variables exert feedback effects on their causes, and path dependence, where the cause of an outcome may depend on where the cause is located in a sequence that includes many other variables”. (p. 80)

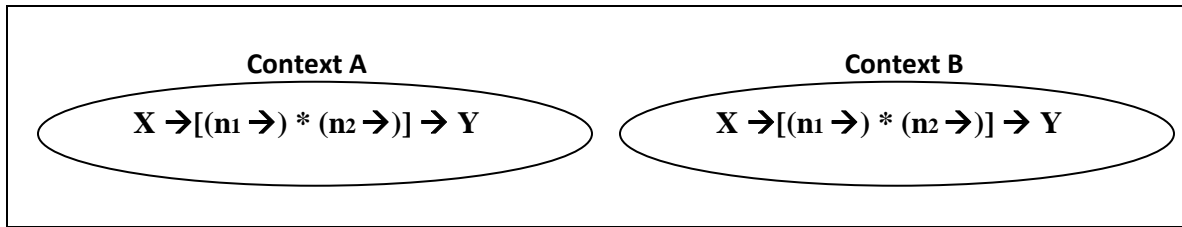
The extent of complexity may even lead to the failure in “making specific predictions on all of the steps in causal process” (George & Bennett, 2005, p. 157). Furthermore, Falletti & Lynch (2009) focus on the issue of ‘context’ through which causal mechanism take place viewing the outcome of the process as the result of the interaction of causal mechanisms with their embedded context and, therefore, leading to “the need to specify where one context ends and another begins” (p. 1154).

However, there is disagreement among process tracing practitioners in addressing various aspects of causal mechanisms. This involves the addressing the nature of causal mechanisms in whether they represent intervening variables (King et al., 1994; Rohlfing, 2013) or invariant properties (Waldner, 2012), their visibility, their level of operation (the macro or micro level). Other practitioners (Beach & Pedersen, 2013; George & Bennett, 2005) have adopted a more pragmatic approach or a case specific approach arguing “that any relatively well-developed theory will provide a discussion of causal mechanisms” (George & Bennett, 2005, p. 100)¹⁰.

The figure below portrays the causal mechanism where X refers to the independent variable and Y refers to the outcome of the dependent variable and each *n* represents an individual part of the causal mechanism carried out by a specific *entity* performing a specific *activity*. The causal mechanism as a whole is bounded by contextual conditions within which the causal mechanism functions.

¹⁰ In addition to purely macro-level and micro level causal mechanisms, Beach & Pedersen (2013), identify mechanisms that link the two levels together “the macro to the micro-level” (situational mechanisms) where “social structures constrain individuals action” (p. 60) and “the micro to macro-level” (transformational mechanisms) where the interaction of individuals “generate various intended and unintended social outcomes at the macro-level” (p. 60).

Figure 2.2: The Format of Causal Mechanism



Source: Adapted from (Beach & Pederson, 2013, p. 46) & (Falleti & Lynch, 2009, p. 1151)

“Specifying the beginning and ending of the temporal context within which causal process plays out” (Falleti & Lynch, 2009, p. 1153) - or what is termed “Periodisation” - depends on identifying the critical points within the trajectory of the case such as “the change in the outcome”, an “exogenous shock” a change in the independent variable (Falleti & Lynch, 2009, p. 1155). Since the “variety of contextual layers” renders “perfect periodization ... elusive” (Falleti & Lynch, 2009, p. 1157), identifying the most crucial point ought to be guided by the “research question, hypotheses, and the nature of the outcome of interest” (Falleti & Lynch, 2009, p. 1159).

Testing the theoretical framework entails explicitly theorising each part of causal mechanism referring to each entity in ‘noun’ terms and their relevant activity in ‘verb’ terms (Beach & Pederson, 2013, p. 77), specifying the ‘empirical manifestation’ for the theorised mechanism and then investigating whether “whether the predicted empirical manifestations of the mechanism were present or absent.” (Beach & Pederson, 2013, p. 50).

The empirical evidence used in process tracing tends to be ‘nonstandardised’ (Waldner, 2012, p. 71). Collier (2010) uses the term “causal-process observations” (CPOs) to distinguish the type of evidence used in process tracing from with the standard data-set observations (DSOs) used in quantitative research . He defines CPOs as “an insight or piece of data that provides information about context, process, or mechanism, and that contributes distinctive leverage in causal inference.” (p. 3). Blatter (2012) elaborates further on the different types of non-standardised empirical evidence. He distinguishes between three types that ideally need to be present beginning with the ‘comprehensive storylines’ that provides “an overview of the overall process that has led to the outcome” (p. 16), followed by ‘smoking-guns observations’ which represent “a central piece of evidence” (p. 19) which “creates certainty with respect to the dense link between a cause and an effect” (p. 21) and finally ‘confessions’ “which reveal the perceptions, motivations and anticipations of important actors” (p. 21).

6.2.3 Case Selection & Generalisation: The Syrian case as a plausibility probe

As mentioned, the theory will be examined through a detailed single case study. The selected case is the on-going episode of US / EU economic sanctions on the Syrian Arab Republic. The Syrian case represents what Blatter (2012) refers to as a “strong” case that should ideally be

starting point for case selection in Process Tracing¹¹. The Syrian case represents a strong case in the sense that it exhibits “strong ‘positive’ result with respect to the outcome of interest” (Blatter, 2012, p. 6-7) given that the Syrian Arab Republic has not conceded to the demands of the senders in achieving political transition. The issue of dispute is related to regime change and thus issues of social contestation of state power can be integrated in the framework without making necessary amendments to link domestic politics with foreign policy-related decision making. The final reason is pragmatic since the applicant is native to the target country, fluent in the country’s language and well-founded in Syrian affairs with relevant professional work experience and academic publications on the country’s political economy.

To some extent, investigating the Syrian case can be considered as a ‘plausibility probe’. Levy (2008) defines plausibility probes as:

“an intermediary step between hypothesis generation and hypothesis testing” (p. 3)... [which] allows the researcher to sharpen a hypothesis or theory, to refine the operationalization or measurement of key variables, or to explore the suitability of a particular case as a vehicle for testing a theory before engaging in a costly and time-consuming research effort” (Levy, 2008, p. 6).

Within this definition, the Syrian case can be viewed as a ‘plausibility probe’ as it aims at the initial testing of the theory and the refining of its hypothesis but not in the sense of refraining to engage in costly research effort.

While in-depth single case study “has the potential to generate relatively complete explanations” it possesses the drawback of “privilege[ing] internal validity over external validity” and therefore representing a “constraint on generality” (Waldner, 2012, p. 69). The generalisation from the single case of Syria is arranged through what Blatter (2012) terms “possibilistic generalisation” which involves identifying “the configurations of conditions and/or mechanisms that the researcher identifies as necessary and sufficient for an outcome” (p. 9). Therefore, following the examination of the case and the identification of the necessary and sufficient conditions for the outcome, “the set of ‘potential’ configurations (all logically possible combinations of the identified conditions and mechanisms) and/or the set of ‘proven’ causal configurations” will be identified (Blatter, 2012, p. 9). It is important to note that “the second set includes all those configurations that have been shown to lead to the outcome of interest” (Blatter, 2012, p. 9) which in this case addresses the configurations which to the success of the sanctions episode.

6.2.4 The conceptualisation and operationalisation of the theoretical framework

The conceptualisation and the operationalisation of the theoretical framework implies molding the theoretical outline into the methodological framework of process tracing in order to prepare framework for empirical testing. This entails translating the causal mechanism to precise entities

¹¹Footnote: Whereas further research should investigate “the relevance of specific factors that have been identified as necessary for the outcome in the first study” (Blatter, 2012, p. 6-7).

and activities - crude notions of hypothesis (relate to plausibility probes) and their empirical validation specifying the 'empirical manifestation' for the theorised mechanism and then investigating whether "whether the predicted empirical manifestations of the mechanism were present or absent." (Beach & Pederson, 2013, p. 50). A pragmatic approach will be adopted where the theoretical framework will guide the assumptions regarding the nature of causal mechanism.

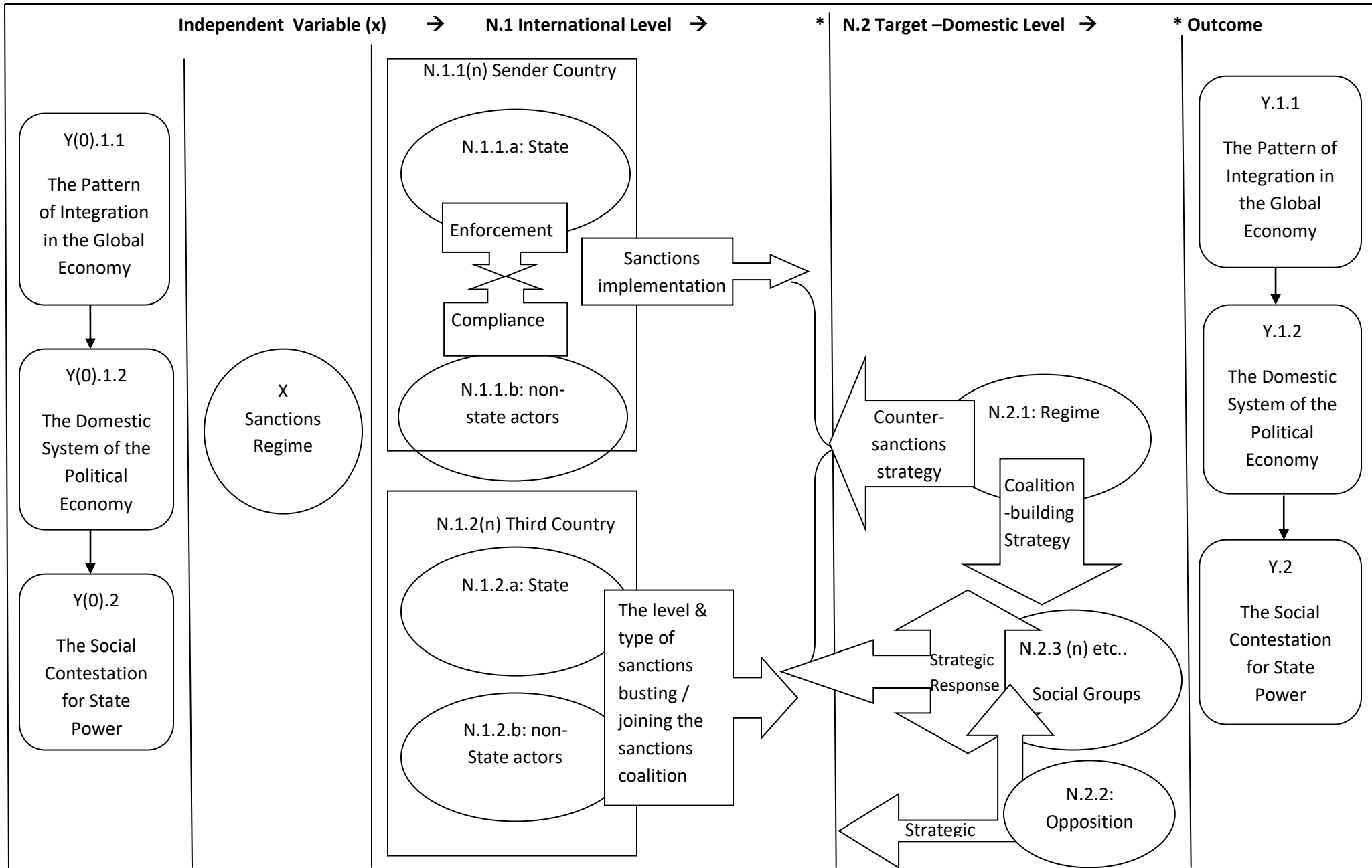
As such, adapting causal mechanism format of $(X \rightarrow [(n1 \rightarrow) * (n2 \rightarrow)] \rightarrow Y)$ to the specifics of the proposed framework will yield the figure 2.3. The analysis, as specified in the figure, will be carried for each specific context which, in turn, will be identified based on the key changes in the independent variables, the outcome and relevant exogenous shocks.

The first and last columns in the three graph address the three inter-related aspects of the independent variable(s) with the first column discussing these variables prior to the sanctions episode $Y(0)$ and the last column following the intervention $Y(1)$.

The first box, **The pattern of integration with the global economy (Y.1.1)**, which refers to the aggregate of the target's international economic relations in terms of its "trade and capital flows structure" (Connolly, 2018, p. 26). It addresses their composition, the target's key economic partners, the role of the state in its international economic relations and the distributional effects on the domestic economy. The second box, **The domestic system of the political economy (Y.1.2)**, refers to the inter-relations of the target country's economic structure with its political dynamics in terms of identifying the economic basis of politically influential groups and the regime's co-optation strategies among other coalition building strategies. The final box, **The social contestation for state power (Y.2)**, which refers to "the dynamic, evolving nature of social conflict in target states" (Jones, 2015, p. 47) and discusses the key events and turning points in the conflict reflecting the changing nature of regime and opposition coalitions and that of the relevant coalition building strategies.

The **second column** in the graph refers to the independent variable, **the sanctions regime (x)**, which addresses the coalition of sender countries, the types and sequence of sanctions imposed and the procedures and institutions related to sanctions design and implementation in sender countries. Identifying the sanctions regime can be extended towards identifying the targeted sectors and social groups within the target country and, in turn, identifying the projected impact of the sanctions regime on the country's political economy based on the initial analysis on carried in the first column.

Figure: 2.3 Graphical Representation of the Theoretical Framework



The third and fourth columns address the framework's causal mechanisms with each column representing the two different levels of the casual process. The third column represents the **International Level (N.1)** while the fourth column target country represents the **Domestic Level (N.2)**.

At the international level, the two macro-level entities can be identified: **Sender Country (N.1.1)** and the **Third Country (N.1.2)**. Within each sender country, the framework distinguishes between two entities the **Sender State (N.1.1.a)** and **non-State Actors** (mainly commercial firms) **(N.1.1.b)**. In addition to imposing and designing sanctions, the sender state carries out the activity of enforcing economic sanctions through its monitoring and penalising system. The second entity, the non-state actors, responds to sanctions' imposition and enforcement through complying with or violating the sanctions regime. The level of compliance varies based on variety of factors including the state's competence in detecting the violation, its willingness to enforce the sanctions regime and the effectiveness of its enforcement measures, from one side, and the commercial interests of non-state actors in violating the sanctions regime, from another. Therefore, as an entity, the **Sender Country (N.1.1)** carries out the activity of sanctions implementation - as distinct from designed sanctions - based on the interaction of the activities of the state and non-state actors within the sender country.

The entities and activities within third countries follow the same specification as that of sender countries. Each **Third Country (N.1.2)** represents a specific entity, in itself, while also comprising of two separate entities at the meso-level, **Third Country State (N.1.2.a)** and **Third Country non-State Actors (N.1.2.b)**. The **Third Country State (N.1.2.a)** either encourages/discourages its non-state actors' trade based-sanctions busting or involves directly in aid-based sanctions busting. The level of **Third Country non-State Actors (N.1.2.b)** trade-based sanctions busting varies according to its profitability and the state's position towards such trade. As such, the activity of the **Third Country (N.1.2)** is the result of the interaction of its two meso-level entities and varies along a spectrum between joining the sanctions regime and sanctions busting.

Sanctions busting is defined as "third party states that respond to the imposition of economic sanctions by increasing their economic engagement with target states that ameliorate the sanctions' adverse consequences" (Early, 2015, p. 21). The in-between position of demonstrating "passive support to the sanctions regime" is defined as the case where the third country does "not seek to exploit the economic advantages available to them" (Early 2006 p. 18).

Based on Early (2015), trade-based sanctions busting will occur if it is profitable for non-state actors to do so while the political interest/disinterest of the third country state affects the level of sanctions busting. Aid-based sanctions busting will only occur with the combination of three conditions: the third country state possesses a political interest for sanctions busting, can afford to provide aid and trade-based sanctions busting is unprofitable. Finally and contrary to Early (2015), the thesis will not restrict its analysis to trade and foreign aid but will rather include other types of sanctions busting that the empirical case may yield.

The target country's domestic level addresses the strategic responses of the regime, the opposition and its key social groups. The **target country's ruling regime (N.2.1)** represents the central entity and distinctively carries out two activities. The first activity, the **'counter-sanctions strategy'** which is defined as "the adaptive measures taken to reduce the impact of sanctions" (Connolly, 2018, p. 27) whereas the second activity **'regime coalition building strategies'** is defined as the combination of "coercion, concession and consent" (Jones, 2015, p. 43) measures that the regime pursues in its quest in building its ruling coalition. More specifically, the second activity will address the state's economic policies, such as its fiscal, monetary and foreign trade policies, that allow for the realisation of such measures. The second entity represents the **target country's opposition (N.2.2)** while the target country's key social groups will be identified through studying the country's domestic system of political economy and the quantity of related entities (**N.2.3; N.2.4;** etc...) will be determined accordingly. Their activities will loosely defined as their strategic response to the sanctions episode. Overall, the success/failure of domestic actors' strategies are facilitated /constrained by international factors.

The **last column Y(1)** will discuss how the sanctions episode contributed to the changes in the original pattern of integration with the global economy and domestic system of the political economy. In turn, the new domestic system of political economy - in which coalition building techniques and their financing are embedded in - represents the new arena in which social contestation for state power takes place and shapes the outcome of the sanctions outcome in relation to regime change. The outcome of the sanctions episode can be attributed to two factors: the nature of the reshaped domestic system of political economy and the nature of the target's opposition. The maintenance of the existing system of political economy and/or a weak opposition, or an opposition weakened by sanctions, reduce the possibility of sanctions success given that the regime coalition building strategies are more likely to be maintained. Otherwise, the failure to maintain the existing system of political economy may tarnish the regime's coalition building strategies which in turn may lead to sanctions success especially if the opposition possesses the strength to capitalise on that. Finally, a new configuration of the political economy may create new social forces and new regime/oppositions dynamics with ambiguous impact on sanctions outcome.

2.6.5 Data Sources

The thesis will benefit from the vast and various documents that sprang up to cover the Syrian conflict. This includes peer-reviewed academic journal articles, research centres' reports, journalistic investigations and news sources in both English and Arabic. As such, the main method for data analysis will be qualitative documentary analysis with sources drawn from existing documents rather than through conducting interviews or direct observation. As a secondary source of data, the thesis will rely on quantitative data to cover some aspects of the enquiry. While documentary analysis has the benefit of being both time and cost efficient, it has several drawbacks related to the bias of the author as well as the failure of to provide all the necessary information (Bowen, 2009). These drawbacks are highly nuanced in the selected case given that the Syrian conflict has highly polarised opinion at the local, regional and international

levels and given that the clandestine nature of sanctions busting and circumvention exacerbates the problem of information availability. In alleviating the bias problem, several factors will be considered for sources including the attempt balance between sources from different political positions and avoiding the use of sources with inflammatory language. The analysis of Syria's political economy prior to the sanctions episode will rely on the key scholarly work on this issue which the mainly involves the prolific works of Raymond Hinnebusch in addition to the contribution of Volker Perthes and Bassam Haddad. The more specialised economic aspects will draw on the works of Syrian experts (Jamal Barout, Sameer Aita and Nabil Sukkar), the candidate's own contribution to the issue, Syrian policy makers (Atiyeh al-Hindi and Adeeb Mayaleh) and country-specific related IMF reports. Finally, quantitative data from the Syrian Central Bureau of Statistics will be utilised to analysis the international aspects of the Syrian economy and its public policy. The details of the sanctions regime will mainly rely on sender countries' official government releases and sanctions-related legislation such as the US executive orders and the Treasury's press releases and the European Union's Council Decisions and Council Implementation Regulations. The international dimension of the sanctions episode whether the related to the senders and third countries will depend mainly on western journalist sources such as Reuters, the New York Times and the Financial Times. Domestic level political and military strategies will rely on reports from several think tanks and research centers such as the International Crisis Group, the Institute for the Study of War. Domestic level economic sources will rely mainly on the news of the Syria Report and are complemented by Arabic online journalistic sources (al-Akhbar, al-Araby al-Jadeed, al-Modon...).

2.7 Conclusion

In this chapter, a theoretic al framework that discusses the causal mechanisms that shape the outcome of a sanctions episode was developed and operationlised for empirical testing. The framework was developed based on the critical evaluation of the literature that discusses the roles of both international and domestic factors in determining sanctions outcome in addition to assessing the implicit notions in the literature that discusses the interaction between the two factors. The framework examines the interaction of sanctions implementation, the behavior of third countries and the strategic response of target level domestic social forces and their combined impact on the target country through affecting its pattern of economic integration in the global economy and its domestic system of political economy which in turn constitutes a new platform for social contestation within the target country and shapes the outcome of the sanctions episode. The framework in its current setting is restricted to cases where regime change represents the prime of objective of the sender countries. As such, the framework has developed an integrated approach towards examining the outcome of sanctions episode where the role of both domestic and international factors and their interaction are taken into account. The case of current ongoing episode of US/EU-led economic sanctions on Syria has been chosen as plausibility probe for testing and refining the theoretical framework which will be carried out in the following chapters.

Chapter Three: Syria's Political Economy prior to the Sanctions Episode

3.1 Introduction: The Political Economy of Post-Populist Authoritarianism

Based on the discussed framework in the previous chapter, addressing the country's domestic system of political economy, its pattern of integration in the global economy and the nature of social contestation for state power in the period preceding the sanctions episode acts as a prerequisite for understanding the mechanisms through which economic sanctions affect the target country's political economy and its social conflicts. Within this context, Syria's domestic system of political economy can be addressed within the framework of populist authoritarian model (PA) and its transition towards post-populist authoritarianism (PPA).

The PA system is associated with political regimes that emanated from the revolutionary coups which allowed "middle class/peasant alliance" to take power from the post colonial "cosmopolitan oligarchs" (Hinnebusch, n.d.). Aimed at eradicating the power base of oligarchs and facing "old style colonialism" (Ayoubi, 1995, p. 201), such regimes develop a system of political economy that involves "a distinct combination of *etatiste* and welfarist policies" (Ayoubi, 1995, p. 199) in which a populist coalition of lower classes was created through pursuing policies of state-led import substitution industrialisation (ISI), agricultural land reform and the provision of social services and subsidised basic commodities (Ayoubi, 1995; O'Donnell, 1973).

Focusing on the case of Latin American, O'Donnell (1973) addresses the trajectory of such regimes. He argues that the incorporation of populist classes through welfare policies is facilitated through the initial success of ISI in its horizontal expansion (substituting consumer goods) phase. However, with the exhaustion of horizontal ISI, the need to shift towards a vertical ISI (substituting intermediary and capital products) and export-oriented industrialisation creates a dilemma between development and welfare in the sense that the need for further capital accumulation contradicts with the welfare policies that the lower classes benefit from. This dilemma is resolved through a coalitional shift which excludes the lower classes, from one side, and integrates transnational capital, domestic capital and technical elites, from another, and thus transforming into a new form of authoritarianism termed "Bureaucratic Authoritarianism" (BA).

Ayoubi (1995), on the other hand, contrasts the Latin American PA trajectory with the case of Arab PA countries. Arab PA countries, due to their access to external rent (political aid from Gulf countries, modest natural resources endowment and remittances), reject the choice of cutting welfare and deepening industrialisation in favour of creating adjustments within the system. This involves incorporating segments of the private sector and civil society while gradually rolling back on welfare policies.

Thus, rather than transforming towards a BA system, the Arab PA regimes transform towards what Hinnebusch (2000) defines as a PPA system. At the heart of PPA regimes lies an alliance between state officials who have evolved into a 'bureaucratic bourgeoisie' - through accumulating wealth by illegal exploitation of the public sector and seeking investment outlets - and a business sector that had survived the PA period through playing the role of the state's middleman. The amalgamation of the two results in the creation of a new private sector that acts a "complementary engine for capital accumulation" to the stagnant public sector that ensures regime survival and avoids a full-fledged liberalisation process. In parallel to this process, the rollback against the populist social contract takes place in a selective and incremental manner diluted by regime's access to external rent. Hinnebusch (2000) further discusses the variations among Arab PA regimes in their transition into a PPA system in terms of the degree of the populist rollback and the incorporation of the bourgeoisie, international capital, civil society and Islamist movements. Within this context, Egypt stands as the typical case of a PPA system where the transformation is complete, in terms of the populist rollback, the state-business alliance and integration into the global capital. This contrasts to the case of Syria where the process is incomplete; the state-business alliance is truncated by sectarian friction and the state has sufficient access to external rent and therefore is not completely dependent on the private sector for investment and taxation. Therefore, the Syrian state can avoid a decisive populist rollback rendering the undertaken liberalisation measures shallow in comparison with the archetypical transition model of Egypt.

Therefore, it is through understanding Syria's specific form of transition from a PA to PPA system and the underlying changes in its co-optation strategies, in the structure of its economy and the role of the state within this economy that the country's political dynamics can be understood. This involves changes in the regime's coalition, the emergence of an opposition coalition and the resulting social contestation for state power in addition to understanding how economic sanctions can influence all these variables.

This chapter will overview the trajectory of Syria's PA system and then discuss Syria's transition towards a PPA system. This transition will be viewed as a two-stage process. The first, 'Economic Pluralism' (1989 -2000) is associated with the renewal of oil revenues which facilitated the creation of a middle ground between populism and liberalisation while the second, the 'Social Market Economy' (2000 -2010) is associated with the gradual decline of oil revenues which, in turn, led towards the creation of a more typical form of a PPA system. The nature of the regime coalition, the economic role of the state and the economic and political dynamics of each phase will be discussed. Afterwards, Syria's social contestation for state power prior to the current sanctions episode will be addressed. Finally, this chapter will discuss Syria's pattern of integration with the global economy which will allow for understanding the vulnerabilities of the Syrian economy towards external shocks.

3.2 Historical Overview: The Trajectory of Syria's Populist Authoritarianism System

Syria's original PA system is associated with the Radical Ba'th's (1963 -1970) rise to power. The Radical Ba'th comprised of "a handful of officers and intellectuals entrenched at strategic levers of military and bureaucratic power" (Hinnebusch, 2001, p. 47) descending from a poor rural background. Deprived from a social base, their reach to power was carried out through a military coup which displaced the traditional urban oligarchy (Hinnebusch, 2001, p. 47).

This period witnessed the creation of the foundations of Syria's statist economy. This involved the nationalisation of its large & medium industrial enterprises its banking sector and the state's presiding over the country's foreign trade. Furthermore, Syria developed a nascent oil sector and, with the Eastern Bloc's assistance, embarked on its hydraulic mega-project, the Euphrates Dam (Barout, 2005, p. 91). As for the "Ba'th's agrarian project", it centered around launching a land reform scheme with land redistributed from landlords and investors to farmers (Hinnebusch, 2011, p. 3).

These economic changes devastated the economic bases of the Syrian bourgeoisie and landowners while allowing the regime to harvest support among farmers and workers and creating a state-dependent salaried middle class (Hinnebusch, 2001, p. 54, 56). Nevertheless, these economic changes failed to produce the necessary political economic conditions required for state consolidation. The public industrial sector failed to expand and produce sufficient surplus while the displacement of landlords in the agriculture sector created stagnation in production (Hinnebusch, 1990, p. 143; Hinnebusch, 2011, p. 3). Politically, the support from farmers and workers failed to create sufficient mobilisation capacity to counterweight the strong urban opposition to its rule (Hinnebusch, 2001, p. 63). As such, Syria original PA system never really launched, and its crisis lied in its failure to take off rather than the common problems associated with the exhaustion of the horizontal phase of ISI.

Amid the state consolidation failures of the Radical Ba'th, the defeat in the 1967 Six Day War dealt a heavy blow to its legitimacy. Detestation towards the Radical Ba'th transcended the Syrian bourgeoisie towards the wider population to the extent that any alternative to its rule was welcome (Seale, 1988, p. 169). Within this context, Assad's rise to power, through the internal conflicts within the Radical Ba'th, represented the Syrian "Thermidor" who established a post-revolutionary "Bonapartist" order in the aftermath of the class warfare excesses of Syria's "Jacobins" (Hinnebusch, 1990, p. 143). Assad broadened his regime coalition developing a "two-fold strategy" through "co-opt[ing] parts of the bourgeoisie" (Danneels, 1994, p. 21) while solidifying the regime's original populist constituency and therefore "cultivating two distinct coalitions... instead of constructing one grand coalition" (Danneels, 1994, p. 21). Thus, the populist coalition enjoyed institutional representation in party, military and bureaucracy while the bourgeoisie was deprived from such representation and, instead, was granted limited economic benefits. This involved lifting some restrictions on the private sector's participation in

import trade and light manufacturing in what was termed as the first wave of *Infitah* (Perthes, 1994, p. 45).

The 'two-fold strategy' was facilitated by a boom in external revenues associated with the oil boom of the seventies. Benefiting from its geopolitical position as a front country within the Arab-Israeli conflict, Syria received political aid from the Gulf countries. Syria also witnessed an increase in its domestic hydrocarbon rents due to the combined impact of the development of its junior oil industry, its transformation into a net oil exporter, the increase in global oil prices and the royalties it received from Iraq's pipeline. This was complemented by second order effects of the oil boom such as the availability of cheap credit in the international market and the flow of remittances from Syrian workers in the Gulf region in addition to the continuation of financial and technical assistance from the Soviet bloc (Barout, 2005, p. 99-101).

The abundance of external financial resources facilitated the launching of a PA system in terms of developing a state-led ISI, creating public employment opportunities and providing social services provision and subsidised consumption of essential goods. An ambitious public sector-led industrial build-up investment program was launched. The investment boom concentrated on capital-intensive chemical and engineering industrial turnkey projects (cement, aluminium, batteries and tyres) and expanding Syria's infrastructure (dams, power plants, cereal mills and transportation networks) (Perthes, 1997, p. 42-45). The state expanded in public employment, in the provision of social services (education, electrification and health services etc.) and even intervened in retail trade. The increase in public employment, in addition to its reflection of the increasing functions of a developmental state, also entailed a political function representing a means for social mobilisation of the regime's rural base (Perthes, 1997, p. 141-142). On the other hand, the state's expansion into retail trade aimed at subsidising essential consumption through setting administratively prices below its market rate (Barout, 2005, p. 98).

This state-led investment program created opportunities for the private sector as well. It was assigned an intermediating role undertaking the task of importing the necessary capital goods for the state's turnkey projects and acting as subcontractors for public projects in addition to playing a major role in light manufacturing such as textile and chemicals (Perthes, 1994, p. 47; Barout, 2005, p. 98). In agriculture, a "dual private and socialist" system emerged (Hinnebusch, 2011, p. 3). The small and medium private farms, that emerged as a result of the land reform, represented the dominant form of agricultural production while the government contributed to the system through investing in irrigation (dams & canals) and land reclamation projects and through supervising an agricultural production plan which was enforced through control of production input, credit allocation and a compulsory crop purchasing system (Hinnebusch, 2011, p. 12-13). This policy allowed for extracting an agricultural surplus that was channeled to the Public sector's ISI, as production input, and as low-cost foodstuff to the urban areas (Hinnebusch, 2011, p. 4).

Throughout the Seventies, the Syrian economy witnessed high growth rates reaching double digit figures and the investment ratio reached high levels of around 25-30% of GDP (Barout,

2005, p. 93-94). Nevertheless, the populist policies of high subsidies and full employment encouraged consumption over savings and increased the investment/savings gap. In other words, the oil boom-induced economic growth did not resolve the original failure of Ba'athism in creating a public sector surplus and the country's development commitments were funded by external sources and money printing. Furthermore, the public sector transformed into an arena for the "democratization of patronage" in the sense that it "widened the net of corruption from a few families to a larger portion of the population" (Hinnebusch, 1995, p. 311). Thus, rather than developing a state capitalist system, the Syrian economy transformed into a "neo-mercantile" system in which economic development was promoted but rather "as an instrument of state formation militarism, populism, and patronage" (Hinnebusch, 1995, p. 311). In other words, the consolidation of Syria's PA system was only achieved after the broadening of the regime coalition to incorporate segments of the bourgeoisie and after witnessing a boom in its external revenues.

However, rent levels remained insufficient in order to create a sustainable rentier economy or prevent an exhaustion of its horizontal ISI rendering a PPA transition inevitable. The combined impact of typical public industrial management problems, corruption and over-consumption had begun to have their impact on the Syrian economy as early as 1976 with the slowdown of GDP growth rates and the Balance of Payment turning negative (Carr, 1980; p. 458-459; Perthes, 1997, p. 44-45). The crisis of the Syrian economy was further exposed with the decline in the various sources of external revenue (decline in external aid, oil exports and pipeline royalties), beginning in the early 80s, leading to increases in public deficit, public debt and inflation throughout the first half of the 1980s (Barout, 2005, p. 125-127, 145-147). Manufacturing would stagnate with the exhaustion of horizontal ISI, the tripling of intermediary products' imports and the failure to shift to vertical ISI expansion and manufacturing exports (Perthes, 1992, p. 40-41, 45-46). The country's oil balance shifted into negative with the stagnation of oil production, the decrease in oil prices and the increase in petroleum imports in light of the increasing domestic demand. Furthermore, Syria was witnessing a growing food security crisis with the decline in domestic agricultural production and the increase in food imports (Perthes, 1992, p. 40-43).

With the growing economic difficulties, initial austerity measures were introduced with restrictions on imports and import funding and with curtailing public development expenditure towards completing existing projects rather than investing in new projects (Perthes, 1992, p. 39-40, 44). The deterioration of the Syrian economy culminated with the 1986 collapse in global oil prices leading to a foreign exchange crisis. The economy contracted by 5% as import-dependent manufacturing reached a standstill with the scarcity of foreign exchange while the country's stock of wheat was on the verge of depletion (Barout, 2012, p. 127; Sukkar, 1994, p. 28).

The essence of these measures was related to reducing the size of government, in terms of provision of public subsidies, employment, social services and direct involvement in economic activity while, at the same time, relaxing the restrictions on the private sector's participation in economic activity. This period witnessed a serious devaluation in the Syrian currency, substantial cuts in public expenditure, high rates of inflation and the development of a

complicated system of multiple exchange rates while the ban on the private sector's involvement in several segments of manufacturing and foreign trade was revoked. The second wave of selective economic liberalisation was complemented by the Soviet barter trade deal in which the Syrian debt to the Soviet was to be repaid through Syrian exports and thus the private sector was encouraged to invest in textile and chemical industries as part of the barter deal (Arslanian, 2009, p. 47). The second wave of selective liberalisation was brought to a halt by the early 90s with the resurgence of oil revenue due to the recovery of oil prices and the increase in oil production and exports (Arslanian, 2009, p. 58). Overall, the second wave of reforms - referred to as the 'second wave of *infatih*' - represented the initial stage of transition to PPA as the welfare system was mitigated and the private sector was delegated many of the economic responsibilities of the public sector (Perthes, 1994).

Rural Syria witnessed structural changes unprecedented in its modern history. The Syrian peasantry was mobilised through regime's popular institutions while traditional authority was weakened (Dawisha, 1978, p. 344). The expansion in Syrian infrastructure and social services contributed to the mitigation of the historical "urban-rural gap" (Hinnebusch, 2011, p. 13) while land reform contributed to the creation of a dominant class of middle farmers even though it failed to completely eradicate landlessness (Hinnebusch, 2011, p. 10). More significantly, through their absorption in public education and civil and military public posts, Syria's rural constituency found opportunities for social mobilisation and elevated into state-dependent salaried middle class (Barout, 2005, p. 116). However, the stagnation of the economic system decelerated this dynamic. The failure of salaries and compulsory agricultural purchasing prices to keep up with the growing rates of inflation implied the declining of the living standards for salaried workers, civil servants and peasants. Whereas rural migration was previously absorbed in public employment and increasing the strata of salaried middle classes, its continuation, amid the curtailing of public employment, led to the creation of a "semi-proletariat" class (Perthes, 1992, p. 55). Overall, the institutional representation of the populist coalition was growing in weakness and causing an atmosphere of indifference among the populist classes (Perthes, 1992, p. 55-56).

In parallel to the stagnation of the populist classes, the Syrian bourgeoisie underwent a process of reconstruction. The reconstructed Syrian bourgeoisie was manifested in the form of an alliance/informal network between the 'Bureaucratic Bourgeoisie' and a combination of the old and new private bourgeoisie that thrived on the margins of the state-led investment program (Barout, 2012, p. 62; Perthes, 1992, p. 55-56). The emergence of the 'Bureaucratic Bourgeoisie' followed the regular pattern witnessed in PA system with bureaucratic officials exploiting their formal positions for private enrichment through redirecting foreign aid, public enterprises and land appropriation for their private advantage and conditioning bribes for processing administration procedures (Barout, 2005, p. 62). The informal networks between the two strata of the reconstructed bourgeoisie was initially realised through informal arrangements for public contract awards which was based on commission splitting rather than competitive biddings (Sadowski, 1987, p. 449). However, with the burgeoning problems of the Syrian public sector,

these informal networks evolved as the state started promoting a group of ascending businessmen who benefited from the special economic deals resulting from the economic problems of the public sector such as black-market profiteering and such as tourism and transportation deals (Haddad, 2012, p.96; Perthes, 1992, p. 51, 57). With the constraints on investment opportunities especially for public officials, the newly accumulated wealth was either transferred in financial accounts abroad especially in Lebanon or in land and real estate speculation (Barout, 2012, p. 63).

3.3 Syria's Two-Stage PPA Transition

The second wave of Syria's selective economic liberalisation measures represented the turning point in Syria's transition from a PA towards a PPA system. In light of the volatility of Syria's external revenues, and more specifically its oil exports, its transition was phased over two stages. The first phase 'Economic Pluralism' (1989 – 2000) was associated with the increase in Syria's oil production and exports. This allowed for controlled liberalisation measures and maintained a minimised form of its populist social contract. The second phase 'the Social Market Economy', on the other hand, was associated with the decline in Syria's oil revenues which compelled the curbing the populist social contract while accelerating the process of the liberalisation.

3.3.1 The First Stage: 'Economic Pluralism' Phase (1989 -2000):

The combination of the second wave of selective economic reforms and the renewal of oil revenue led to the creation of a new economic system, "Economic Pluralism". The main tenet of the system was that the role of the private sector was elevated and acknowledged to be on par with the public sector (Barout, 2005, p. 189; Arslanian, 2009, p. 57). Politically, the new system implied a reconfiguration of the regime's two-fold strategy towards an amalgamation of "minimalist populism & circumscribed liberalisation" (Haddad, 2012, p. 138). Minimalist populism implied a curtailed version of the state's commitments towards public employment, provision of social services and subsidising the basic costs of living while circumscribed liberalisation represented the shift in the gravity of manufacturing, domestic and foreign trade from the public to the private sector. Economic pluralism also implied enhancing the institutional representation of the private sector through appropriating one third of parliamentary seats to 'independents', increasing the access of Chambers of Commerce to decision making and elevating the status of the joint public-private 'Guidance Committee' to become the prime decision maker in international trade affairs (Perthes, 1992b; Barout, 2005, p. 191). This was paralleled by the downgrading of the institutional representation of the Ba'th Party and other popular institutions in the decision-making process as they were no longer consulted in key policy issues but, nevertheless, retained their ability to defend their statist and populist interests (Hinnebusch, 2001, p. 109)

3.3.1.1 The economic role of the state:

'Economic Pluralism' implied a change in the economic role of the state which involved a contraction in its direct involvement in economic activity (production & distribution) while adopting a series of macroeconomic policies which emphasized price stability, protectionism in agriculture and industry and maintained a contracted commitment towards welfare provision.

Retraction of the state's direct involvement in economic activity: Even though privatisation remained a red line in Syrian economic policy, the direct involvement of the Syrian state in economic activity was significantly curtailed vis-à-vis the private sector following the pre-1986 crisis. This was mainly manifested in foreign trade, domestic trade, transportation and manufacturing. Nevertheless, the Syrian government retained direct control over many activities which ranged from retaining monopolistic position, a dominant position and a minor position as illustrated in the table below:

State's Position	Sector	Details
Monopolistic	Extractive Industries	Oil, gas and phosphates production, marketing and foreign trade of extractive industries
	The Financial Sector	
	Social Services	Utilities (drinking water & sanitation, electricity & telephone) Irrigation networks The higher education sector (universities)
	manufacturing industries	cement, sugar refining, fertilizers, steel, glass and paper, alcohol, mineral water and tobacco products)
	Industrial crops	cotton, sugar beets and tobacco marketing, distribution and foreign trade
Dominant		the wheat supply chain (Bakeries – milling etc...)
	Social Services	primary education and secondary healthcare (hospitals)
Minor Position	Services	retail trade
	agriculture	state farms
	manufacturing	pharmaceuticals, textiles and agro-foods
* Source: Author's assembly based on		

This direct involvement of the state in economic activity allowed the achievement of several objectives. State Owned Enterprises (SOE), especially those that upheld a monopolistic position, represented a source of public revenue (Oil, tobacco, telecommunication and banking) and foreign exchange revenue (oil, phosphates and cotton) (Matar, 2016, p. 120). The State's control over social sectors (health, utilities and education, etc...), wheat and energy supply chains and its minor involvement in retail trade, housing and construction allowed for subsidising the costs of social services and essential consumption. Finally, the public sector represented an important source of employment employing around one-quarter of the workforce (Aita, 2006, p. 150).

The policy of self-sufficiency in agriculture: The food and fiscal crises of the eighties implied that the former agricultural system, with its specific public/private roles, was neither productive nor financially sustainable. Thus, the new agricultural policy strived towards increasing production and, more specifically, achieving self-sufficiency in agricultural products, while reducing the level of government support. Therefore, the Syrian agricultural market was increasingly liberalised through reducing various input subsidies, eliminating compulsory delivery to state establishments for the majority of crops and allowing the private sector a greater stake in the marketing, distribution and foreign trade for agricultural products (Arslanian, 2009, p. 47). The Syrian public sector retained its monopoly over the purchase and marketing of industrial crops (cotton, tobacco and beet sugar), adopted voluntary delivery for other crops (wheat, barley, chickpeas and lentils) based on economically rational prices (production costs plus a margin of profit) and retained several subsidies including fuel, maintenance and operational costs for irrigation projects and wheat seeds (al-Hajj, 2018, p. 41; al-Hindi, 2011a, p. 28). More importantly, the curtailing of new investments in costly hydraulic irrigation systems was substituted by encouraging farmers to exploit groundwater through granting well licenses, subsidised loans for digging and purchasing pumping equipment in addition to subsidised price of diesel which was used for pumping (Aw-Hassan et al., 2014, p. 205).

Stability-oriented macroeconomic policies (fiscal, monetary, credit, pricing and foreign exchange rate policies): The cuts in public spending during the second half of the eighties reduced public expenditure from its pre-1986 level of 50% to 25-30% of GDP throughout the nineties. Throughout the nineties, fiscal policy was contractionary and concerned with budget balancing as its main objective was achieving price and currency stability at the expense of stimulating aggregate demand (Aita, 2006, p. 25). The policy draws from the concern over avoiding further inflation and devaluation that wage earners bore during the late 80s readjustment. Another factor was related to avoiding foreign indebtedness given the experience of 1986 foreign exchange crisis and its subsequent isolation from the international financial markets (Aita, 2006, p. 25). Two thirds of public revenue were from government sources while only one third was from various taxation sources. Public investment decreased, from its pre-1986 share, of 40% towards one third of total expenditure while public subsidies were reduced from its pre-1986 level of 12% to 4% of GDP (Aita, 2006; Barout, 2005).

Other macroeconomic policies such as monetary, foreign exchange, credit and pricing policies also reflected the imperatives of price stability and inflation control as a means of subsidising basic consumption. Monetary policy was based on fixed exchange rates at very high levels (8% for deposits) and arranged government borrowing through commercial banks, rather than the Central Bank of Syria, to avoid excessive money printing (Aita, 2006, p. 37, 44). The banking system, monopolised by the public sector, was primarily concerned with providing loans to SOEs and “played a very limited role as a financial intermediary for the private sector economy” (Aita, 2006, p. 46) After serious devaluation measures during the late 80s, the foreign exchange rate was fixed at an overvalued rate (50 SYP/\$) and fortified with restrictive measures on foreign

exchange transactions and transfers. The overvaluation of the foreign exchange rate represented another means for subsidising consumption for foreign products (Matar, 2016, p. 118-119).

Promoting a Private-led ISI (Investment & trade policies): The revoke of the ban on the private sector investment in the majority of the manufacturing industries was complemented by legislation encouraging private sector investments. Within this context, Investment Law No.10/1991 represented a qualitative shift in the Syrian state's attitude towards the private sector and was even regarded as emblematic of the 'Economic Pluralism' system (Arslanian, 2009). The main logic of the Law was to encourage private sector investment especially those with development related aspects (e.g. employment generating) through offering a series of exemptions of Syrian laws whether those related to Syria's strict foreign exchange regulations (the ability to deal – the ability to import – the transfer profits) or tax holidays. In line with its policies of promoting a private sector-led ISI and a self-sufficient agriculture sector, Syria developed a restrictive trade regime. This trade restrictiveness was based on a combination of high tariff rates and non-tariff barriers (negative lists, multiple exchange rates, import licenses etc...) and is aligned with ISI and agricultural self-sufficiency policies with tariffs being highest in manufactured consumer goods and lowest for production inputs (Chemingui & Dessus, 2008, p. 918-920).

3.3.1.2 The Dynamics of the 'Economic Pluralism'

Syria's revenue from oil exports represented the bedrock of "Economic Pluralism" representing the underlying factor behind Syria's macroeconomic stabilisation through its dual balancing of the public budget and the BOP. Thus, oil-related revenue – in addition to the contribution of selected SOEs – represented the main sources for the financing of Syria's minimalist populist commitments. Similarly, oil exports – in addition to the contribution of remittances - facilitated the pursuance of a private-led ISI and self-sufficiency in agriculture without facing external constraints (Arslanian, 2009, p. 57-58). This macro-economic stability, aided by contractionary macroeconomic policies, allowed the taming of inflation following the devaluation and the price liberalisation of the 1980s (Aita, 2006, p. 39).

The new agricultural policies led to an increase in irrigated areas and in production which resulted in achieving self sufficiency for most products (wheat, cereal, citrus, olives, livestock, fruits and vegetables) and creating a surplus for exports. Nevertheless, Syria failed to achieve self-sufficiency in all products. This includes cereal used as fodder (corn, soya and barley) products difficult to produce due to climatic factors (sugar, rice, tea, coffee and bananas) and due to technical sophistication (powdered milk and vegetable oils) (al-Hajj, 2018, p. 5-6, p. 21-22). The growth of the agriculture sector led to an increase in its contribution to employment as its share increased from 25% to 30% of the total workforce throughout the nineties (Syrian Centre for Policy Research (SCPR), 2019, p. 26).

The Soviet barter trade deal resulted in the mushrooming of private enterprises in textile and chemical industries and their transformation from micro to middle size enterprises. Similarly,

the 'bureaucratic bourgeoisie' benefited from the increasing openness to the private sector to start employing its accumulated wealth in industry and services, most notably restaurants and transportation. Investment Law No. 10 allowed both segments of the bourgeoisie to invest their newly accumulated wealth in formal channels resulting in an investment boom in the early 90s (Barout, 2012, p. 64). Syria's manufacturing concentrated on consumer products such foodstuff, textile and pharmaceuticals in the protected domestic market (Arslanian, 2009, p. 57). On the other hand, public enterprises lacked the dynamism to compete with the emerging private sector thus incurring additional losses and causing a further drain on public resources (Aita, 2006, p. 25-26).

Nevertheless, the development of the private-led ISI was stunted by several factors. Macroeconomic policies pursuing contractionary fiscal policy, high real interest rates, overvalued exchange rate and credit constraints to the private sector hindered constrained aggregate demand, the ability to expand business operations and the development of exports (Aita, 2006, p. 26; Arslanian, 2009, p. 59-61). The consolidation of the state-business networks that emerged embryonically prior to 1986 also had their detrimental impact. The various forms of state-business collaboration (facilitating bureaucratic procedures, investing through proxies, entering directly into business or through their sons) amalgamated towards "the second configuration of the Syrian bourgeoisie" (Barout, 2012, p. 64) leading to the creation of a stratified bourgeoisie in which capital accumulation is pertinent on "political positionality" (Haddad, 2008, p. 5). Thus, business expansion was restricted to the politically connected while the majority of businesses lacking 'political positionality' were hindered from natural expansion and locked in small enterprises (Hinnebusch, 1995, p. 317; Arslanian, 2009, p. 60). Furthermore, these emerging business networks played a role in shaping the liberalisation process and manipulating laws and regulation towards their advantage (Haddad, 2012, p. 89). For example, the investment Law No. 10/1991 become more concerned with service sector transportation car rental services than with manufacturing (despite the developmental clause in the Law itself) (Barkei, 2004, p. 125). The 'Guidance Committee' transformed into a "hub" for the allocation of import rents among state-business networks (Haddad, 2012, p. 79-80).

As a result, the private investment boom stunted and growth rates slowed, by the second half of the nineties, ushering the stagnation of the model of "Economic Pluralism" as a whole (Arslanian, 2009, p. 58). The stagnation of 'Economic Pluralism' was further threatened with oil production, the bedrock of the system, reaching its peak of 590,000 barrels per day BPD in 1996 and "falling at a rate of 11% per annum" (EIU, 2007). The vulnerabilities of the system were exposed in the late 90s with the slump of global oil prices and agriculture's vulnerability to climatic factors and groundwater overdraft (Arslanian, 2009, p. 61). Overall, the stagnation of 'Economic Pluralism' represented the failure of the private sector to become the engine of investment and employment while the public sector maintains its minimalist populism. Thus, 'Economic Pluralism' failed to reverse the trend of semi-proletariat proliferation, leading to the growth of the informal sector and seasonal employment) that Perthes (1992) noted its emergence in 1980s.

3.3.2. The Second Stage: The Social Market Economy (2000 -2010)

The stagnation of Economic Pluralism and the prospects for the depletion of Syria's oil revenues threatened the balancing between its two blocs. Thus, in light of the looming fiscal crisis, "preserving the fiscal base of the state" implied the necessity of launching "a sustained take-off of private investment which depends on Syria's conformity to the standards of the global market" (Hinnebusch, 2003, p. 196). This, in turn, implied "adapting... its populist social contract to the requisites of capitalism" (Hinnebusch, 2012, p. 98). In other words, the decline in oil rent implied a more proper PPA transition which implied a more genuine restructuring of the social base of the regime.

"At the heart of the regime coalition was the new class of "crony capitalists"—the rent-seeking alliances of political brokers" (Ehteshami et al., 2013, p. 233). The "heights of the Syrian economy" were commanded by close family members of Assad (Haddad, 2008, p. 48). On the other hand, it was envisaged that the "wider elements of the bourgeoisie" and the urban professional middle class were to benefit from creating "intimate partnerships" with regime cronies and from business-friendly policies as well as other trickle-down effects (Hinnebusch, 2012, p.101-102). Meanwhile, 'adapting the populist contract' entailed a selective reduction in the state's welfare commitments (e.g. maintaining public employment levels while reducing subsidies) while transferring some of these commitments to civil society organisations, such as Islamic charities, and maintaining an indirect supervision over them (Hinnebusch, 2012, p. 105). The new economic model was promoted as the 'Social Market Economy' in a display of "a commitment to both the market and social protections" (Abboud, 2015, p. 64)

In terms of the intensity of the liberalisation measures, a distinguishing can be made between an initial reluctant phase (2000-2004) and a latter more audacious phase (2005-2010). The initial phase was characterised by a sense of perplexity and caution towards the intended direction of economic policy. Integration in the global economy was mainly pursued through negotiating the signing of the EUAA which, for political reasons, was never realised (Ehteshami et al., 2013, p. 229-230). This phase witnessed the initial signs of regime cronies monopolising emerging sectors as manifested in Rami Makhoul, Assad's maternal cousin, monopolising the mobile phone market (Aita, 2008, p. 18). The economic opening towards Iraq acted as a buffer against accelerating the pace of reforms as it became an outlet for Syrian manufacturing products and, more importantly, allowed for replenishing its rent resources, in light of Syria's violation of the oil-for-food program, through re-selling extremely cheap Iraqi at world market prices (Hinnebusch, 2003, p. 203; Huuhtanen, 2008, p. 172-173). The shift towards the more audacious phase (2005 -2010) was triggered by a series of inter-related external and internal political factors which will be discussed later. During this phase, several liberalisation measures were pursued with the intention of creating an attractive investment climate that reaps the benefits of the post-Iraq invasion oil boom and attracts Gulf investment (Barout, 2012, p. 53).

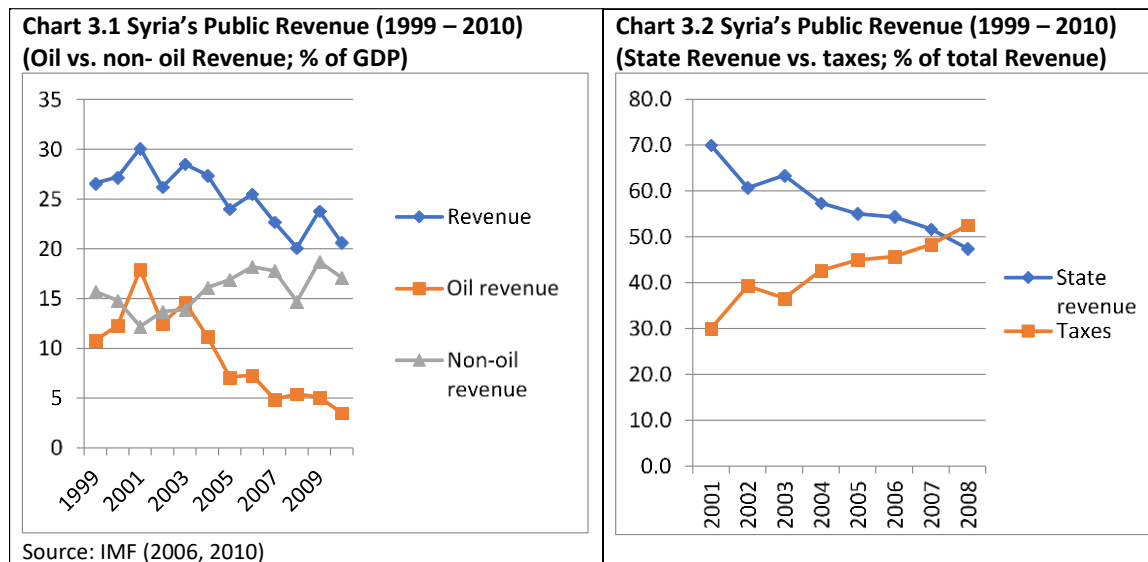
3.3.2.1 Changes in the economic role of the state

The State's direct role in economic activity: With the exception of state-owned agricultural estates, privatisation remained off the table (Ababsa, 2015; Seifan, 2010, p. 24). Alternatively, the state pursued another wave of demonopolisation in specific sectors. This included several manufacturing industries (sugar refining, cement and cables) that remained under state monopoly after the second wave of liberalisation. More importantly, several services were opened to the private sector including the financial sector (banking, insurance and foreign exchange bureaus), the education sector (private universities), the aviation sector (private airlines), the mobile telecommunication sector, the media (private television channels, private radios, online magazines and news outlets) (Seifan, 2010, p. 19-23).

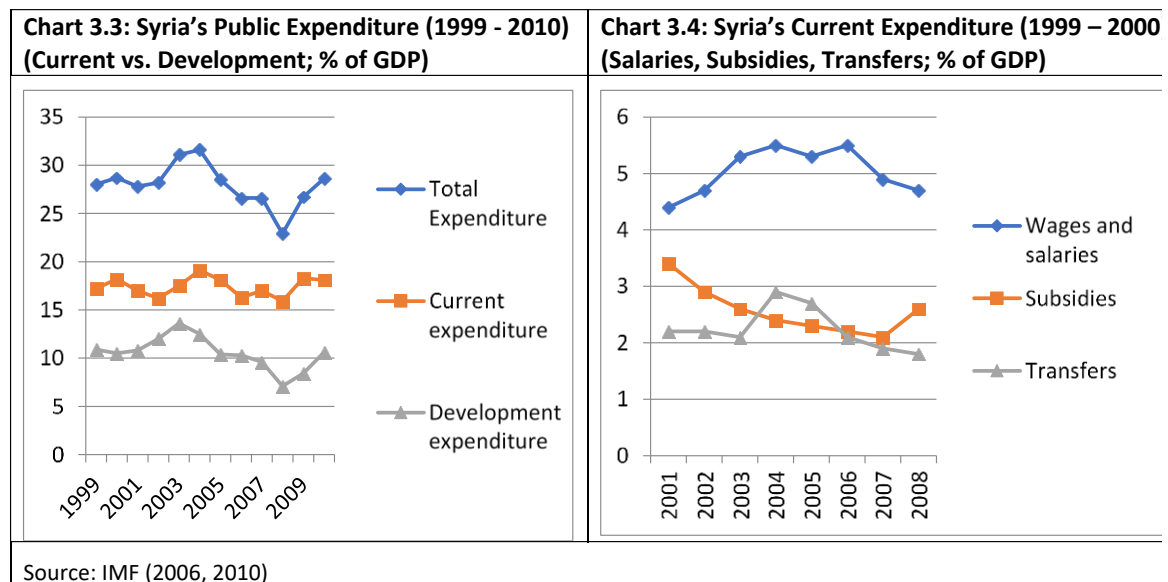
Monopolistic Position		
	Extractive Industries	oil, gas and phosphates production, marketing and foreign trade of extractive industries
	Social Services	Utilities (drinking water & sanitation, electricity & telephone) Irrigation networks
	manufacturing industries	fertilizers, steel, glass and paper, alcohol, mineral water and tobacco products
	Industrial crops	cotton, sugar beets and tobacco marketing, distribution and foreign trade
Dominant Position		the wheat supply chain (Bakeries – milling etc...)
		primary education and secondary healthcare (hospitals) The higher education sector (universities)
	Financial Services	Banking – insurance – foreign exchange transactions
Minor Position	Services	retail trade
	Manufacturing	pharmaceuticals, textiles and agro-foods cement, sugar refining, cables

The shift from stability to growth-oriented macro-economic policies: The objectives of macroeconomic policies shifted from the former populist-oriented concerns with price stability and inflationary pressures towards encouraging growth. Thus, monetary, fiscal and credit policies adopted counter-cyclical policies. In terms of Syria's fiscal policy, there was a shift away from the previous contractionary fiscal policy as its prime objective shifted from price stability towards boosting aggregate demand. However, and in light of Syria's dwindling oil revenue, fiscal policy attempted to balance between a mid-term trend of matching expenditure with dwindling revenue and a short-term counter-cyclical fiscal boost to instigate demand (International Monetary Fund (IMF), 2005, p. 11; IMF, 2007, p. 6-7; IMF 2010, p. 5). Based on IMF data, the decline in Syria's oil revenue (from 18% to 3.5% of GDP between 2001-2010) was partially compensated by an increase in its non-oil revenue (from 12% to 17% of GDP) leading to a decline 30% to 20% of GDP in Syria's total revenue. By 2004, non-oil revenue surpassed oil revenue as the budget's main revenue source. This was mainly driven by the increase in indirect consumption taxes and SOE surpluses (mainly driven by the telecommunication sector) (IMF,

2005, p. 12; Barout, 2012, p. 80). Despite the significant decrease in oil revenue, revenue from government sources (the sum of oil and SOE revenues) represented around one-half of total revenue in 2008.



As discussed, overall **expenditure** fluctuated due to the counter-cyclical fiscal policy reaching above 30% of GDP in 2003 and 2004 and reaching below 23% in 2008. The relative stability in current expenditure (fluctuating between 15 % and 18% of GDP) masks the change in its components as subsidies were reduced while the wage bill was increased. In contrast, development expenditure was more volatile (ranging between 7-13% of GDP). The year 2008 represented a critical year as overall expenditure was at its lowest level as energy subsidies were reduced significantly and development expenditure was at its lowest point. This trend was reversed in the following years (2009-2010) as a means to counter the combined impact of the global crisis, the draught and the adverse impact of reducing fuel subsidies (IMF, 2010, p. 5). Overall, not only has there been a curtailing of the state's commitments to its populist classes but with increase in indirect tax compensating for the decrease in oil revenue, these commitments were increasingly being funded from these classes rather than from external rent revenue.



In parallel to the policy of reducing subsidies, state interference in the market through administrative pricing was significantly reduced for a vast number of consumer goods during allowing producers to set the prices of their products and, thus, reflecting another shift from subsidising the costs of basic consumption (IMF, 2005, p. 8; Mayaleh, 2004). In terms of monetary & credit policy, interest rates were lowered while the previously cautionary credit policies shifted towards more active intermediation with the private sector as ceilings on loans raised and collateral requirements relaxed (Aita, 2006, p. 37; IMF, 2005, p. 13). Although the foreign exchange regime remained a fixed regime, partial liberalisation measures were pursued as multiple exchange rates were gradually unified, restrictions on transaction partially relaxed (private banks to finance importers, individuals allowed annual purchase of 5000USD) and the official exchange rate was moved more frequently (Aita, 2006, p. 61, p. 105-106)

Regional integration (Investment & trade policies): Investment policy was guided by the need to compensate for the decline in oil revenues and the related declines in foreign exchange revenue and public revenue which implied both increasing Syria's integration in the global economy and increasing the Syrian economy's openness to the private sector. Therefore, tourism, non-oil exports and FDI were promoted as a means for raising foreign exchange revenue in parallel with opening financial and social services as well as the remaining state manufacturing monopolies to the private sector, deregulating the real estate and amending investment law to allow land ownership. Promoting non-oil manufacturing exports involved targeting the regional market, especially the emergent Iraqi market, through setting up well-equipped industrial cities. The state played an explicit role in promoting its cronies to access the newly liberalised sectors. It encouraged the conglomeration of Syria's prominent businesspeople in holding companies which were sought to act as an investment pool for prospective investments and further facilitated project pre-approval, public sector contracts and state appropriated land provision (Barout, 2012, p. 73, 82). Regional integration, implied

dismantling Syria's protective trade regime, through a combination of unilateral trade liberalisation measures, consisting of reducing both tariff and non-tariff barriers, and multilateral and bilateral regional agreements, most notably the Greater Arab Free Trade Agreement (GAFTA) and FTA with Turkey (Said, 2010, p. 50; Abboud, 2010, p. 19).

3.3.2.2 The Dynamics of the 'Social Market Economy'

The overall outcome for the Syrian economy was highly positive with robust growth rates and with the private sector out taking the public sector in its contribution to investment and commerce replacing agriculture as the largest sector in the economy. The Syrian economy managed to compensate for the decline in oil exports through enhancing its regional integration through boosting tourism, attracting FDI and manufacturing exports (Barout, 2012, p. 85 -89). The process stirred a service-led boom in which Gulf, neighboring and expatriate capital in collaboration with the local crony capitalist invested heavily in real estate development, tourist projects and financial services in what Hinnebusch (2009) referred to as a process of "Lebanonization" in which inward investment in tertiary and luxury businesses was prioritized" (p. 25). As opposed to the boom in services, the share of agriculture declined to lower than 20% of GDP while its contribution to employment was reduced from 30% to 14% by the end of the decade (Statistical Abstract, 2011; SCPR, 2019, p. 26). The 2008 reduction in energy subsidies, with its increased costs on groundwater pumping, coincided with a severe draught that amplified their adverse impact on agriculture (Barout, 2012, p. 125, 129). The draught/subsidy reduction shock to agriculture mainly affected winter crops (barley, wheat) and the livestock in the eastern area (decline by 30%) (Katana, 2010). As such, Syria was forced to import wheat in 2008 for the first time since the eighties (Barout, 2012, p. 127). However, in terms of other cereal, legumes, fruits and vegetables, Syrian self-sufficiency policies remained intact (al-Hindi, 2011b). The manufacturing sector experienced mixed results although its overall growth rate was modestly positive (Nassar et al., 2013, p.20). From one side, trade liberalisation measures led to the collapse of several artisan businesses, most notably the furniture industry, which failed to compete with external competition (Barout, 2012, p. 245; Hinnebusch, 2012, p. 101). Furthermore, the manufacturing sector suffered from "unfair competition" from Syrian merchants with their manipulation of GAFTA in order to dump textile of Chinese origin (Matar, 2016, p. 127). Other manufacturing enterprises flourished benefitting from the creation of industrial cities, the economies of scale created by trade liberalisation and the targeting of the regional market (Nassar et al., 2013, p.20; Said, 2010, p. 58). The city of Aleppo with its long tradition in manufacturing flourished managing to create partnership with Turkish capital serving as a sub-contractor for both the EU and Turkish markets (Barout, 2012, p. 374-375).

These economic changes reflected the shift in the regime's base from its original populist base towards the bourgeoisie classes in line with a complete PPA transition. Barout (2012) denotes the alliance between regional and local capital and their investment as the "third wave of the Syrian business class reconfiguration" (p. 62). Within this third wave, big businesses collaborated with each other in different projects – whether through individual capacity or through their affiliation to the same holding company – and profits were distributed according to contribution

size which in turn was determined by the 'political positionality' of each business (p. 71). The new economic situation had trickle-down effects on other businesses and solidified the urban professional middle class especially in the two metropolitans of Damascus and Aleppo (Hinnebusch, 2012, p. 107-108; Barout, 2012, p. 136). However, the shift in the regime base did not benefit the Syrian bourgeoisie, as a whole, as it remained stratified by political positionality and regime cronies did not hesitate to encroach on other businesses (Haddad, 2012, p.106). Furthermore, Syria's smaller cities did not feel the trickle-down effects leaving their business classes marginalised (Barout, 2012, p. 136). On the other hand, renegading the populist social contracts had detrimental effects on Syria's populist classes. The trickle-down effects did not apply to "the majority of the Syrian population" (Nasser et al., 2013, p. 21). The service-led boom failed as an engine for job creation, a problem that was exacerbated by the series of bankruptcies in small manufacturing enterprises and the draught and the ensuing rural migration epidemic (Nasser et al., 2013, p. 22-23; Hinnebusch, 2012, p. 101). The curbing of subsidies and other liberalisation measures led to the "erosion of purchasing power" of Syria's populist classes (Nasser et al., 2013, p.21). Although the Syrian state continued to provide low cost social services and subsidised essential consumption, there was a decrease in both the quantity and quality of the provided services. More importantly, "public employment and education" ceased to retain their function as a mechanism for "social mobility" (Hinnebusch, 2011, p. 102).

3.4 Syria's Social Contestation for State Power prior to the Syrian Uprising

The rural-urban antagonism witnessed during the rule of the Radical Ba'th was contained with Assad reaching power and the broadening of the regime base through his 'two-fold strategy'. As mentioned, Assad's 'two-fold strategy' comprised of an institutionally incorporated populist coalition and segments of the bourgeoisie, more specifically, the Damascene bourgeoisie, deprived from such institutional representation. The populist coalition involved a form of "populist corporatism" in which the regime mobilised its rural base through incorporating them in several institutions: the military, party, the Ba'th and popular organisations such as trade & peasants unions and like-minded progressive parties, such as Communists and Nasserites, were "co-opted in the National Progressive Front" (Hinnebusch 2002, p. 66). This institutional system was maintained through a neo-patrimonial system based on the "kinship and sectarian solidarity" (Hinnebusch, 2001, p. 5) of Assad's Alawite community as he pursued a "strategy of placing personal Alawite clients at the strategic levers of the military-security apparatus" (Hinnebusch, 1995, p. 306). The building of a personal power base within the military facilitated its subordination to the presidency which, in turn, was used to balance against the Ba'th party. By balancing each pillar of power against each other, Assad was able to concentrate power in the presidency and creating a "Presidential Monarchy" (Hinnebusch, 2001, p. 67).

Nevertheless, there were limitations to the broadening of the regime coalition as co-opting both the populist classes and Damascene merchants left the artisan / small merchants in Syria's other urban centers of Homs, Hama and Aleppo excluded (Lawson, 1984, p. 464). This alienation grew

with the “explosion of [regime’s] patronage networks” (Sadowski, 1987, p. 449) and was extended towards other segments of society such as students and middle-class professionals embittered by the triumph of nepotism over meritocracy and general feeling of discontent among the population’s confessional majority of Sunni Muslims towards their underprivileged position vis-à-vis the Alawite minority (Lawson, 1984, p. 463-465; Sadowski, 1987, p. 450). The deterioration in the economic situation, beginning in the late 70s, and the ensuing contraction of the regime’s cooptation techniques was paralleled with the launch of anti-regime activity in these urban centers, headed by the Muslim Brotherhood but also included splinter groups from NPF, which included targeted assassination of regime officials, urban warfare and mass demonstrations (Sadowski, 1987, p. 452-453). Regime response comprised of the resort to both economic and repressive measures. There was a temporary reversal (1980 -1981) of the austerity and restrictive measures that the government began to implement in the late seventies. Aiming at solidifying its ‘two-fold strategy’, public salaries were increased, increasing public investment was directed to rural areas while restrictions on private sector were relaxed (Sadowski, 1985, p. 7; Sadowski, 1987, p. 454). On the other hand, this period witnessed the amplification of regime security services, elite military and para-military forces who increasingly resorted to the use of violent and retributive measures (Lawson, 1990, p. 7-8, Seale, 1988, p. 326-331). The opposition coalition failed to extend to the rural areas, from one side, and the Damascene bourgeoisie, from another, and was finally suppressed in an armed conflict in the city of Hama in early 1982 following three weeks of regime besiege and bombardment (Seale, 1988, p. 332-333). The years following the Hama Uprising were characterised by near totalitarian practices with heavy surveillance of religious institutions and the remnants of civil society and press freedom were completely eradicated (Hinnebusch, 2001, p. 102).

These practices continued throughout the eighties and were only curtailed following the stabilisation of ‘Economic Pluralism’ and the pursuit of a strategy of “calculated political decompression” as minimum forms of government criticism were tolerated and security interference in daily affairs was mitigated (Hinnebusch, 2001, p. 107-108). ‘Economic Pluralism’ succeeded in maintaining the regime coalition especially that no serious opposition existed during the nineties. The secular opposition was organisationally fragmented, ideologically bankrupt and failed to appeal to the Syrian population while the Islamist opposition remained devastated and in exile in the aftermath of the events of Hama. This was paralleled with a “historical compromise” with the Islamic movement as the regime initiated a process of mild Islamisation with the surge in mosque construction and the increasing display of Islamic discourse in official media (Hinnebusch, 2001, p. 111-112).

The preparations for the transfer of political power from Assad Senior (Hafez) to Assad Junior (Bashar), in the late nineties, caused an intra-regime contestation of state power, termed as the “succession crisis” (Haddad, 2012, p. 91). The crisis involved the struggle for influence within regime’s institutions (the party, cabinet and the military and security forces) between the regime’s Old Barons / the higher bureaucracy and the younger pro-Bashar modernists (Hinnebusch, 2015, p. 27-29). Another repercussion of the transfer of power was the emergence

of the Syrian Civil Society Movement which represented a gathering of Syrian intellectuals, remnants of the Syrian secular opposition movement and disgruntled businessmen (ousted from the market by the regime) exploiting the modernisation pleas of the young president, to call for the abolition of Syria's State of Emergency and the introduction of the rule of law yet fell short from demanding outright democratization (George, 2003, p. 37-40). The trajectory of both contesting groups was interrelated with Syria's foreign tension with the US Bush Administration and its regional allies in light of the Hariri assassination in 2005. The old guard created the nucleus of a pro-Saudi alliance while the fragmented secular and Islamic opposition movement in Syria gathered together and announced the Damascus Declaration (DD) which called on for gradual political reforms. The pro-Bashar modernist faction managed to abort the old guard faction and emerged triumphant in the succession crisis while the role of DD faded amid internal disputes and Syria's rapprochement with Western powers. The regime received a legitimacy boost due to its policies against US hegemony in the region (Iraq, Palestine and Lebanon) which further delegitimised the cause of the Syrian opposition (Arslanian, 2018, p. 293; Barout, 2012, p. 46-47; Ehteshami et al., 2013, p. 228-229).

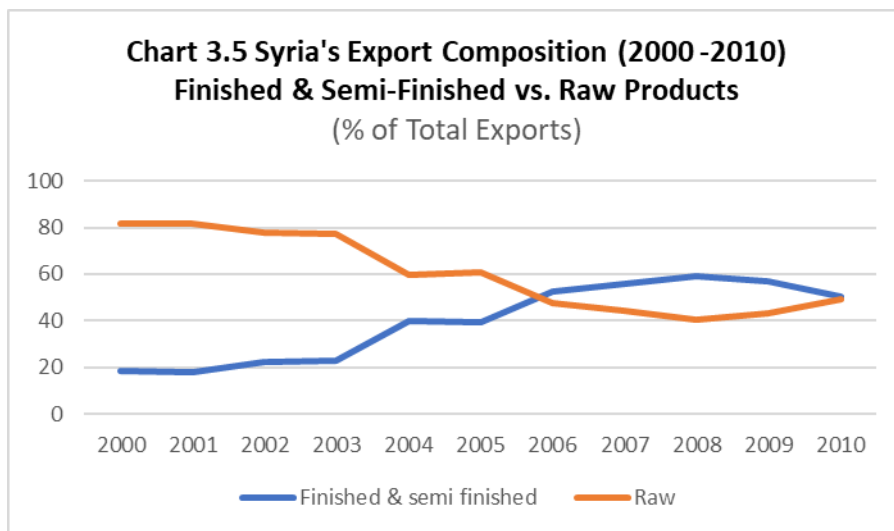
The end of the succession crisis resulted in an unprecedented concentration of power in the hands of the President which facilitated the shift of liberalisation measures from its cautious to its aggressive phase as the populist social contract was acceleratingly dismantled (Haddad, 2012, p. 91). The Ba'th party and the other popular organisations were deliberately weakened through "starv[ing] them of funds" in order to deprive them from the ability to challenge the government's liberalisation measures (Hinnebusch, 2012, p. 99). The subsequent economic liberalisation measures such as the 2008 curbing of fuel subsidies and the 2007 trade liberalisation with Turkey had significant adverse impact on Syria's populist and rural classes as discussed previously. Furthermore, in eliminating the power of the old barons, the regime further weakened the patronage networks that linked it with the rural areas especially among the rural Sunni communities (Hinnebusch, 2015, p. 39). The overall impact was the "erosion of the regime controls" which was manifested in the increasing confessional-based conflicts in Syria's rural areas without the capacity of the Ba'th Party to intermedicate in such conflict (Hinnebusch, 2012, p. 99). Thus, conditions were ripe for the creation of an 'opposition coalition' which would manifest itself, after the Arab Spring, in the Syrian uprising. At its core, this coalition was a populist/rural backlash in alliance with other groups adversely affected by the changes in the political economy including bankrupt artisans, expatriate and disgruntled businessmen ousted from political patronage and marginalised regions and cities. Furthermore, the revival of the Syrian political opposition during the 2000s represented the nucleus of the Syrian political opposition movement during the Syrian uprising which would reach out to the emerging rural-based protest movement.

3.5 Syria's Pattern of Integration in the Global Economy

Syria's second stage transition to PPA was reflected in the shift of its pattern of integration in the global economy. Throughout the period (2000-2010), Syria's pattern of integration in the

global economy transformed from a highly protective economy isolated from global production chains and international capital movements and dependent on exports of raw material towards a more open economy with rudimentary integration in global production chains and a more diversified trade structure. Syria trade openness, measured as the sum of imports and export divided by GDP, increased from an average of (47.6%) for the years (2001 -2004) to an average of (64.8%) for the years (2005-2008) only to decrease again after the 2008 Global Crisis to reach 52% in 2010. This indicator is lower than the average for Middle Eastern countries (78%) and at the same level of the average Lower Middle-Income countries (52%). Therefore, even after its economic transformation, Syria’s economy was not specifically open for its size and its level of development and thus not extremely sensitive towards developments outside.

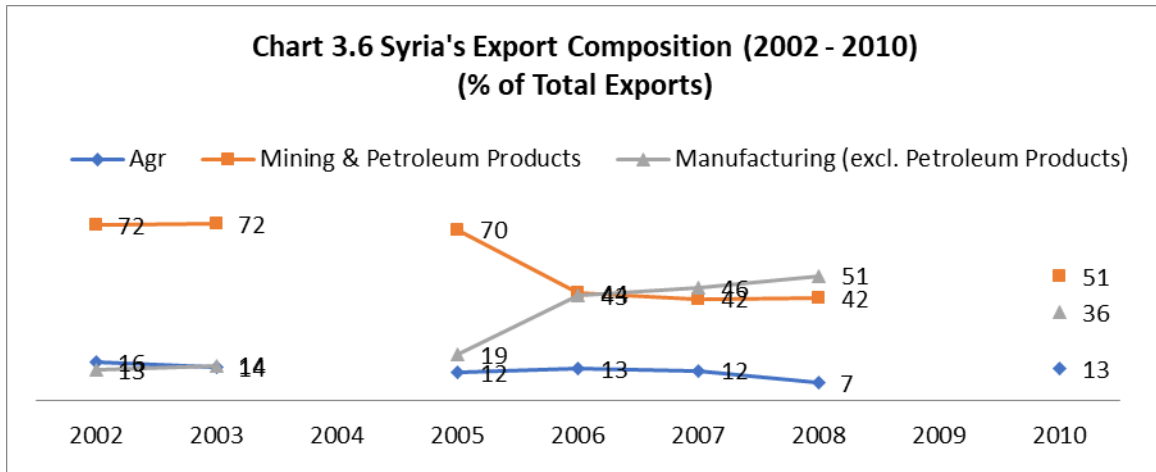
Using data from the various editions of the Syrian Statistical Abstracts allows for a detailed examination of Syria’s export composition and trade partners. Through the period (2000 -2010), Syria’s export composition transformed from a heavy concentration on raw material, especially crude oil, towards a more balanced structure equally divided between raw products, from one side, and finished and semi-finished products from another.



Source: Syrian Statistical Abstract

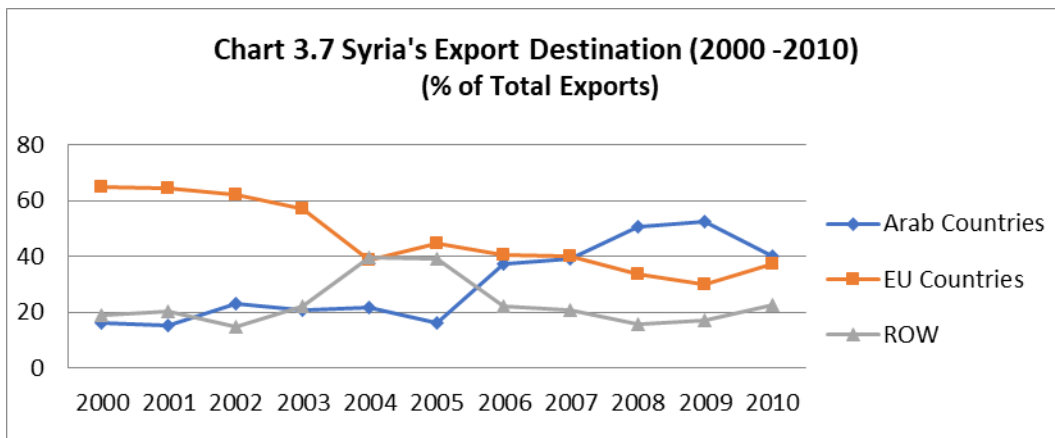
The main changes in the export composition were related to a decrease in the percentage of mining and petroleum products, from around 70% in 2002 to 50% in 2010, and an increase in non-petroleum manufacturing products, from around 15% in 2002 to 36% in 2010, while Syria’s agricultural exports remained relatively constant hovering between 12 – 16% of total exports.

Despite the decline in the exported quantities mining and petroleum products, the decline in their absolute value was less nuanced than the decline in its relative share, the 2010 value was even higher of its 2002 value, given that the decline in the quantities exported was compensated by the increase in oil prices.



Source: IMF (2006, 2010)

This shift in the export composition was paralleled by a shift in their destination from EU towards Arab countries. Thus, Syria developed a dual export structure with its Arab exports comprising primarily of manufactures (textile, agroindustry and chemicals) and edible raw material while its EU exports comprised primarily of non-edible raw material, dominated by crude oil (Abboud, 2010, p. 27). By the end of the decade, the share of EU and Arab countries were both around 40% of Syria's total exports, in comparison to 60% and 20% respectively a decade earlier, thus leaving Syria's exports to the rest of the World below one quarter of total exports.



Source: IMF (2006, 2010)

The geographical distribution of Syria's imports has traditionally been more balanced and diverse among four main blocs: the EU (26%), other European countries (mainly Russia and Ukraine) (15%), Arab countries (15%) and non-Arab Asian countries (33%). In terms of composition, around 90% of Syria's imports are manufacturing products varying between machinery, motor vehicles, basic metals and food products. Around two thirds of Syria's imports are intermediary products while 20% of investment products and 14% are consumption

products. The combination of the high level of intermediary products and the low level of consumption products reflects Syria's ISI and agricultural self-sufficiency policies.

The major changes in Syria's import structure were related to the increase in its imports of petroleum products and its increasing share of trade with Asian countries. Syria's petroleum imports were predominantly diesel and fuel oil and their sources were diverse with the EU countries having the highest share (40%) followed by Russia, Turkey and Saudi Arabia (Othman, 2015, p. 36). Among Asian countries, China, Turkey and South Korea became major import partners with respectively shares of 9%, 10% and 5% of Syria's overall imports in 2010. The increase in their share of imports represented a partial substitution of Syria's imports of machinery and transportation vehicles from EU sources.

Syria's self-sufficient agricultural system implied its insulation from the global economy, at least, for the majority of its final agricultural product. The system, however, was dependent on the outside world for machinery, production input such as fodder (soya, corn and barley) and fertilizers, and final products not produced locally whether due to climatic factors (rice, sugar, coffee, tea and mate) or technological sophistication (vegetable oil & powder milk). During the period (2000 -2010), Syrian agriculture was subject to trade liberalisation, reduction of state subsidies and draught. There was a shift in Syria agricultural exports from cotton towards olive oil, citrus, live animal and dairy products in parallel to a shift in export destination from EU to Arab countries. Syria imports of fodder products and sugar increased significantly (al-Hindi, 2011, p. 12 -14). However, the overall system of self-sufficiency was only marginally affected by these factors with the temporary resort to wheat imports for the years (2007 -2008) (al-Hindi, 2011).

Similarly, Syria's private-led ISI that emerged in the nineties was dependent on the outside world for capital and intermediary products. The trade liberalisation measures that occurred during the period (2000 – 2010) had a dual impact on Syria's manufacturing as led to a wave of bankruptcies of micro-enterprises due to increased competition, from one side, while encouraging regional integration through manufacturing exports to the Arab World especially Iraq. Furthermore, Syrian manufacturing integrated marginally in the global production chains of textile industry through acting a subcontractor to Turkish and European companies (Barout, 2012).

Despite that state control over foreign trade was relinquished to the private sector following the 1986 foreign exchange crisis, the Syrian public sector still retains a significant in foreign trade operation through its various state establishments. To begin with, the public sector retained its foreign trade monopoly over several products, namely, crude oil and petroleum products, wheat, cotton, sugar and tobacco. In addition to its monopoly over such products, the public sector was involved in the foreign of its SOEs and other public sector entities in terms of importing machinery and production inputs and exporting SOE products most notably textile. Furthermore, the public sector was involved in procuring essential products such as foodstuff, pharmaceuticals, iron, black cement and fertilizers (Hurmuz et al., 2008, p. 208-210). This

resulted in the public sector controlling around 50% of exports and 25% of imports in the year 2010. Nevertheless, by excluding the import and export of crude oil and petroleum products, the Syrian public sector remained in control of around 5-10% of foreign trade in agricultural and non-petroleum manufacturing (Statistical Abstract, 2011).

Beyond trade: Syria's integration with the global economy in services, finances, income and capital: As sanctions have not been restricted to trade but extend towards services, finances, income transfers and capital markets, then it is necessary to examine Syria's integration in the World economy in these domains through examining Syria's BOP based on IMF data. To begin with services, Syria had maintained a positive service balance with the rest of the World throughout 2001-2010 while, in the last three years prior to the sanctions episode (2008 -2010), this positive balance soared to exceed 1Billion USD. This positive balance was mainly attributed to Syria's booming tourism sector as receipts increased from less than 2 in 2001 to 5 billion USD in 2010 (based on IMF BOP data). On the payments side, Syria was dependent on the global economy for freight and insurance services which is mainly dominated by European companies (Biersteker & Portela, 2015, p. 23). Therefore, operationalising Syria's external trade was dependent on European-based related services. As for Syria's income and transfer accounts, the negative income account, due to oil companies profit reparation, was nearly compensated by the positive transfer account owing to Syria's private remittances. On the other hand, Syria's official transfers (the aid it receives from other countries or from international organisations) was negligible.

Moving to Syria's financial and capital accounts, Syria has historically received low levels of FDI which prior to 2004 represented less than 1% of GDP and less than 5% of fixed capital formation. However, there was an increase in annual FDI receipts starting from 2004, associated with the changes the Syrian economy was witnessing, surpassing 3% of GDP and 10 % of GFCF by 2007 (Dalloul, 2014, p. 233-235). FDI was concentrated on the Tourism, Oil & Gas and Financial sectors with Syrian Arab capital (Gulf countries, Lebanon & Jordan) and expatriate capital being the main FDI sources (Dalloul, 2014, p. 222-225). However, even after the surge in FDI, Syria was still classified as a low recipient of FDI. Despite the overall low levels of FDI, there were concentrated in the strategic oil and gas sector. The involvement of international companies in this sector dates back to 1974 as production was arranged through "production sharing agreements" between the Syrian Petroleum Company and Western companies (initially Shell and Total) (Aita, 2008, p. 12). US SALSRA-related sanctions, starting from 2004, deterred major western oil companies from investing in the Syrian oil and gas sector and led to the involvement of less prominent oil companies (Gulf Sands, Ocean Energy and Petro Canada) and non-Western companies (the China National Petroleum Corporation (CNPC)) instead (Ehteshami et al., 2013, p. 229; Othman, 2015, p. 16-26). Another area where FDI was highly concentrated was the newly liberalised financial sector as the establishment of private banks and insurance companies were based on joint ventures between Syrian and regional capital (Lebanese, Jordanian and Gulf capital) (Kattan, 2015).

The Syrian government's external debt was at a low level of 9 % of GDP in 2010 (Gobat & Kostial, 2016, p. 28). This low level of external debt is a consequence of the confluence of several factors: its isolation from international financial market (1986 – 2000) following its 1986 default during its foreign exchange crisis, the slow debt resettling process on a bilateral basis with Western countries and international organisations, the reluctance to resort to international markets for political reasons and finally the rescheduling of the Russian debt in 2005 which represented the highest level of its debt (Aita, 2006, p. 57; Aita, 2008, p. 16-17; IMF, 2010, p. 8). Instead, this period of isolation encouraged the accumulation of foreign exchange reserves aided by the 1990s boom in oil exports. This trend accelerated 2000-2003 with Syria's violation of UN's Oil for Food Program imposed on Iraq through purchasing Iraqi oil at a low price and re-selling it at world prices outside the program's designated quota allowing the Syrian government an annual revenue of around (1 billion USD) (Aita, 2006, p. 58; Huuhtanen, 2008, p. 172). By the year 2010, these reserves were estimated at 20 Billion USD and although there are not much details about these reserves they are believed to be dispersed around the world in international accounts and financial institutions as assets belonging to the Central Bank of Syria (CBS) and the Commercial Bank of Syria (Aita, 2006, p. 58; Gobat & Kostial, 2016, p. 28).

In addition to official government assets held in foreign accounts, there was an abundance of private Syrian assets that are deposited in the international financial system. The process dates back to the capital flight of the traditional bourgeoisie after the Ba'athist coup and was followed by the reconstructed bourgeoisie capital transfers during the seventies and eighties in addition to the average Syrian holding accounts in Lebanese banks. However, the emergence of regime cronies in the late nineties, especially with the launching of the Makhoul empire, added a new dimension to the nature of the relation of Syria's private assets with the international financial system. Makhoul resorted to shell companies, registered mainly in the British Virgin Islands among other tax havens, to be used initially as vehicles for his domestic investment (RAMAK (free market), Syriatel (Drexe)) for purposes of tax circumvention. However, with the imposition of SALSRA, these shell companies gained an additional function as it allowed the Syrian regime to circumvent economic sanctions invest in other countries, such as in Romania and Poland, and facilitate the import of sanctions items such military material. Thus, by the time economic sanctions were imposed, regime wealth, both official and informal, "had been meticulously invested overseas... and behind multiple layers of proxies and offshore companies and in countries where disclosure laws were weak or not enforced" (Marinas et al., 2012).

Finally, it's important to discuss Lebanon's role in the country's financial intermediation with the ROW. This intermediation applies to both the Syrian private and public sectors. Part of Syrian imports are processed through the Lebanese ports and the Commercial Bank of Syria even has a Lebanon-based subsidiary to process such imports (Aita, 2006, p. 48). Furthermore, "many Lebanese companies have preferential access to Syrian state-owned enterprises for their imports and exports" (Aita, 2008, p. 6). Prior to trade and foreign exchange liberalisation of 2004-2005, Lebanon played the role of an informal foreign exchange market for the Syrian pound with the Central Bank of Syria unofficially intervening in the Lebanese market to control

the value of the Syrian Pound. The links between the Syrian private sector and the Lebanese financial system were also deeply interwoven. Syrian assets held in Lebanese banks were estimated at around 7 Billion USD in mid-2000s and date back to capital flight of the 60s and continued throughout the 70s and the 80s (Aita, 2006, p. 58). Furthermore, Syrian businesses were highly dependent on loans from the Lebanese banks to facilitate their operations. Aita (2008) even argues that “the Syrian private sector foreign trade could not been operative for long years without the Lebanese banks” (p. 6).

To summarise, Syria’s integration with the Global economy transcended trade towards services, finance, income and capital relations. Private remittances had always played an important in sustaining Syrian households while Tourism and FDI emerged as a key sources of foreign exchange revenue. Despite its increase, FDI remained low in comparative standards, nevertheless, it was concentrated in Syria’s key sectors (Energy, Finance and Tourism). Syria was dependent on Lebanon for facilitating its transactions with the global economy and dependent on European companies for trade-related insurance and freight services. Finally, the Syrian government accumulated a vast amount of foreign exchange reserves, that was intermingled with regime cronies’ private wealth, and invested in international accounts and moved within the international financial system through a complicated network of shell and offshore companies.

Overall, Syria’s integration with the Global economy possessed a dual structure. The first was related to its integration with the EU which was oriented around the oil sector. The EU invested in the Syrian oil and gas sector, the Syrian public sector exported raw material, especially oil to the EU while Syria imported machinery, transportation vehicles and petroleum products from the EU. The second form of integration was related to Arab World which witnessed a more complex interdependency of people (Arab tourists and Syrian workers), capital (Arab & expatriate FDI and Syrian banking accounts), and trade (Syrian manufactured goods). As such, Syria’s dual integration in the global economy possessed different implication for its domestic political economy. Its integration with the EU provides the Syrian state with public revenue that sustains its state’s expenditure and hence its populist commitments (public employment, subsidies and social services). On the other hand, Syria’s integration with the Arab World represented the cornerstone of its third wave of business class reconfiguration with its dependency on the Arab World for capital, tourists and manufacturing exports. Furthermore, private remittances from the Gulf countries played an important role in sustaining the livelihood of Syrian families.

3.6 Conclusion

This chapter aimed at analysing the dependent variable(s) $Y(0)$ of the theoretical framework prior to the imposition of economic sanctions - or prior to the intervention of the independent variable (X) - identified as the country’s domestic system of the political economy, its pattern of integration in the global and the social contestation for state power within the target country.

Syria's domestic system of political economy can be viewed as a specific case of transition from a PA towards a PPA system. This specificity is derived from the semi-rentier nature of its economy and the volatility of its rent sources. Its original PA consolidation was realised only after the inflow of external rent (foreign aid and oil exports) and overlapped with its first wave of selective economic liberalisation. This allowed the regime to pursue a 'two-fold strategy' which co-opted both its populist classes through securing public employment, subsidising essential consumption and social services, supporting agriculture and initiating a state-led ISI, from one side, while co-opting segments of the bourgeoisie through allowing them to thrive on the margins of the state-led ISI.

Syria's transition to a PPA system was a two-stage process. The first stage 'Economic Pluralism' was associated with the renewal of oil revenues creating a middle ground between populism and liberalisation and modifying its two-fold strategy in favor of the bourgeoisie while the second stage, the 'Social Market Economy', was associated with the gradual decline of oil revenues, leading towards a more typical form of PPA. Syria's second stage of PPA implied the shift in its integration in the global economy from a protected economy, with a concentration on oil exports to the EU, towards an economy that is integrated regionally through tourism, manufacturing exports and FDI inflows. On the domestic level, Syria's second stage of PPA transition entailed further tilting its two-fold strategy towards the business class, headed by regime cronies, partially renegading its populist social contract.

In terms of identifying Syria's key social groups, two broad classes can be identified: the business and populist classes. Both classes had undergone structural changes throughout the trajectory of Syria's PA/PPA system. The business class had undergone three waves of reconfiguration resulting as a class stratified into several segments defined by their political positionality and their source of wealth. On top of the hierarchy was the 'integrated' or the 'organic' elite within the close ranks of the presidential family, followed by the dependent business elite who owe their wealth to their connection with the regime. Furthermore, there was a state bourgeoisie at the higher levels of public sector establishments both civil and military who create wealth through abusing their state power, the more generic bourgeoisie - without adequate political positionality - working in commerce and manufacturing and an expatriate bourgeoisie who owe their wealth to activities outside Syria. On the other hand, the populist classes are more akin to a combination of different classes comprising of Syria's rural population working mainly in agriculture and petty commerce, the lower levels of public sector employees including the lower ranks of the military and security services establishments and the Syrian population residing on the outskirts of major cities including traditional artisans and quasi proletariats emerging from rural migration.

The modification of the regime's coalition created favorable conditions for a rural backlash against the populist rollback and the emergence of an opposition coalition of various groups adversely affected by the changes in the political economy. The Arab Spring would allow for the materialisation of such as a coalition and, after decades of relative stability, a serious social

contestation for state power would arise of which the current episode economic sanctions aimed at influencing.

In terms of assessing Syria's vulnerability to external shocks, the shift in the Syrian economy during the aught had a dual impact. The increasing openness of the Syrian economy, its increasing reliance on FDI and rudimentary integration in global production chains had increased its vulnerability to external factors. This trend had been countered by the diversification of Syria's exports structure with the shift from its over-reliance on oil exports to the EU countries towards increasing its share of manufacturing exports to Arab countries. Syria's agricultural self-sufficiency policies had remained intact despite the cracks that appeared in the system in the few years prior to sanctions episode. Nevertheless, the main vulnerability of Syria's food security was related to its external reliance on various agricultural production inputs, its increasing imports of petroleum products and essential consumption goods that were not produced locally. Syria had remained dependent on the outside world for the operationalising of the international economics given its dependence on Lebanon for finance, from one side, and on the European companies for the insurance and re-insurance services, from another. While Syria's two-staged PPA transition had diminished the economic role of the state in many of its sectors and thus decreased its capacity to manipulate the economy in response to economic sanctions, the state had retained its dominance in several strategic sectors such as energy, social services, infrastructure and finance, played an important role in foreign trade and agriculture and contributed significantly to employment and public revenue. Furthermore, the Syrian government had a low level of external debt and a high level of foreign reserves that could buffer the economy from external vulnerability in addition to its development of special techniques for circumventing international sanctions such as resorting to offshore accounts and shell companies.

Chapter Four: The Sanction Regime

4.1 Introduction

After discussing Syria's political economy, its pattern of integration with the global economy and its social contestation of power prior to the imposition of economic sanctions in the previous chapter, this chapter will discuss the sanctions regime in terms of identifying the countries and organisations involved, the different measures applied, the main phases of the sanctions episode, the targeted sectors of the Syrian economy as well as the targeted social groups and political institutions and their projected impact on Syria's system of political economy. This chapter seeks to provide a comprehensive understanding of the sanctions regime prior to discussing the coping mechanisms that the target state pursued in response.

Overall, the sanctions regime on Syria consists of a coalition of Western and regional countries and organisations. While the US and the EU represent the primary senders within this coalition. The US and EU represent the primary senders in this coalition while other Western countries namely Canada, Australia, Switzerland, Norway, Japan and potential EU candidates represent secondary senders who align their sanctions systems with the primary senders. On the regional level, the Arab League and Turkey also joined the coalition through imposing their one-off less restrictive sanctions measures. These sanctions were imposed as a response to Syria's brutal response to the Syrian Uprising and aimed at coercing the Syrian Government to concede power to the Syrian opposition. Economic sanctions represented one of the tools within a set of military, diplomatic and economic measures that members of sanctions coalition had undertaken to achieve their objectives. Although the sanctions regime does not amount to a total blockade as precedent in the nineties' cases of Iraq, Yugoslavia and Haiti, and failed to be adopted by the UN, there are highly comprehensive representing an unprecedented level of restrictiveness from behalf of the senders countries with a wide range of measures applied including recently developed techniques such as imposing sanctions on the Central Bank, insurance and re-insurance services and on third country companies.

This chapter is organised as follows. First, the general sanctioning characteristics of the sender countries will be addressed in terms of their sanctioning approach, institutions and procedures. This is followed by discussing the sender countries' relations with Syria in terms of previous sanctioning history and economic and political relations prior to the sanctions episode. The chapter will then move to discuss the current episode of economic sanctions discussing the types of sanctions imposed by the different sender countries and specifying the main phases of the sanctions regime through identifying the main changes in sanctions measures applied, their severity and their context within other foreign policy tools. Finally, the chapter will discuss the main targeted sectors and political groups within the Syrian political economic system and, the projected impact on the country's political economy in light of the previous chapter's analysis of the Syrian political economic system.

4.2 Senders' sanctioning characteristics

The US sanctions system is based on country specific programs which can be complemented by other regulations and executive orders. The main body responsible for regulating US sanctions is the US Department of the Treasury's Office of Foreign Assets Control (OFAC) in coordination with other departments. For example, in terms of granting exemption licences, the decision is carried out in coordination with the Department of State. In terms of penalising, OFAC is responsible for civil fines while the Department of Justice investigates criminal fines while (Norton Rose Fulbright, 2015).

On the other hand, the EU's sanctions system is divided between the EU Council and the EU member states. Sanctions are imposed as Council Decisions by the EU Council upon reaching consensus among all 28 EU member states while issues related to enforcement such as exemptions and penalising are delegated to the authorities of EU member states (Norton Rose Fulbright, 2015). While the need for unanimity and the division of responsibilities have initially hindered the effectiveness of the sanctioning process and the compliance of member states, sanctions practice and member compliances have improved significantly over time (Portela, 2013, p. 1-2). There are differences regarding the renewal process as the EU relies on annual renewals in contrast to the "open-ended" nature of US sanctions which "stay in force until a decision is taken to lift them" (Russell, 2018, p. 3). Both systems provide a legal right for judicial review for targeted sanctions where designated targets can challenge the sanctioning decision. Nevertheless, challenging sanctions is more likely to be successful in EU courts in comparison to US courts (Killick et al., 2014).

During the last decade, Both the EU and the US have shifted from applying targeted sanctions towards adopting more comprehensive and internationalised forms. The US has exploited its hegemonic position in the financial system and developed innovative forms of financial sanctions which involve "harnessing of intelligence about global financial transactions" and maintaining a "direct outreach to individual foreign private financial institutions" (Kittrie, 2009, p. 799) and, thus, advising foreign institutions against continuing relations with the target country with the threat of being cut off from the international financial market (Kittrie, 2009, p. 817). Therefore, US sanctions - in contrast to EU sanctions - have gained the characteristic of extraterritoriality (Russell, 2018, p. 3). The EU, on the other hand, has increasingly resorted to partial embargoes which aim at targeting specific sectors that represent the backbone of the target's economy such as Iran's oil sector and Cote D'ivoire's cacao industry (Portela, 2014, p. 5; Portela, 2016, p. 39). Furthermore, it has adopted the principle of multilateralism through "coordinating with the widest possible range of partners" (Russell, 2018, p. 3) and pursuing an alignment policy towards "different circles" of neighboring countries including candidate, potential candidate and EFTA countries. As such, the EU has "earned a status of 'default positions' that are 'endowed with normative supremacy'" (Hellquist, 2016, p.1001-1002). Within this context, countries such as Canada, Australia, Japan and Switzerland have developed 'parallel policies' where they all tend to apply their own package of economic sanctions during a EU-led sanctions episode (Hellquist, 2016, p. 1002). More significantly, the US and the EU tend

to coordinate with each other in a sanctions episode, nevertheless, the US remains more restrictive in its measures in comparison to the EU. This can be exemplified by the case of sanctions on the Russian gas sector where EU sanctions have been restricted to new investments while US sanctions have been extended to pre-existing projects (Russell, 2018, p. 3).

Finally, the Arab League, as a sanctioning institution, is historically renowned for its measures for boycotting Israel. However, it is important to note that the Arab League does not enforce the boycott and its role is restricted to creating and updating a blacklist of international companies with business ties with Israel. Therefore, enforcement is left to the discretion of its member states which tends to vary among different countries and has generally waned over time (Weiss, 2017, p. 2). In terms of its policy towards member states, the Arab League has historically respected the sovereignty of its members states based on the principle of non-interference in their domestic affairs. However, the suspension of the Libya's membership in 2011 represented a turning point – in relation to the League's non-interference principle - in which the sanctions episode against Syria can be contextualised (Hellquist, 2014, p. 15).

4.3 Senders' prior relations with Syria

Syria was already under US sanctions prior to the current sanctions episode whereas EU sanctions started with the current episode. Syria was subject to both general and country specific sanctions. General sanctions applicable to Syria included the Export Administration Act of 1979 and the International Emergency Economic Powers Act of 1977 while sanctions specific to Syria date back to the 2003 Syria Accountability and Lebanese Sovereignty Act (SALSA). Thus, by the time that the current sanctions regime took place, the US already had imposed a range of economic sanctions on Syria including targeted sanctions, financial sanctions, export bans and the prohibition of Syrian aircraft landing in US territory. Targeted sanctions included asset freezes on seven Syrian individuals within the higher ranks of Syria's military-security complex, in addition to the business tycoon Rami Makhlouf, three military research entities and the Commercial Bank of Syria. Furthermore, there was a ban on foreign assistance, an export ban on all exports, except for food and medicine, including any product with more 10% US-origin content. (Sharp & Blanchard, 2011, p. 12-18). On the other hand, the EU's predecessor, the EEC, previous sanctions episode on Syria terminated in 1994. They were originally imposed in 1986 in light of the Syrian Government's involvement in the terrorist attack attempt of the El Al flight from London – sanctions were lifted in light of the Syrian European rapprochement after the Second Gulf War (Kreutz, 2005, p. 25-26).

US economic leverage over Syria was weak given the poor economic relations between the two countries following the previous decade's SALSRA sanctions and the US companies pull out from the Syrian market and a low share Syria's overall trade in 2010. The only significant economic leverage that the US retained was related to its monopolistic position in the global financial market in terms of the position of the USD as the Global currency and its supervision over global financial transactions. Hence, the objective of the US from initiating economic sanctions on Syria

was to catalyse allies with deeper economic ties (EU, Turkey and the Gulf countries) to follow suit (Arslanian, 2019). The EU, on the other hand, possessed extensive economic leverage over Syria given the high share of Syria's trade with the EU in addition to the strategic nature of their economic relations with the concentration of Syria's oil exports to the EU, the EU's presence in the Syrian oil industry and its global monopolistic position in the insurance and re-insurance industry. Nevertheless, the overall western economic leverage was countered by the absence of political leverage given their historically antagonistic relationship. The absence of political leverage can be best exemplified by the failure of western countries to change the course of Syrian foreign policy, in the aftermath of the 2003 US invasion of Iraq and the 2005 assassination of the Lebanese Prime Minister Rafiq al-Harriri, forcing them to undergo a rapprochement with the Syrian regime after 2008 (Hokayem, 2013). On the regional level, the Gulf countries and Turkey had witnessed the strengthening of their economic relations with Syria. Furthermore, Turkey and Qatar had developed close diplomatic relations with the Syrian regime and, therefore, suggesting the potential for economic and political leverage over the Syrian regime.

4.4 The Current Sanctions Episode

4.4.1 The Types of Economic Sanctions

In terms of sectoral sanctions, the previous and current US sanctions amounted to a general ban on exports, investment and dealings with the Syrian public sector while imports were restricted to petroleum products. In comparison, the EU sanctions - although had similar bans on dealing with the Syrian public sector and oil imports - did not amount to a general ban on exports which were restricted to a few sectors (luxury, dual-use goods and oil equipment) and to a general ban on investment which was confined to the energy and the financial sectors. Within the standards of EU sanctions, sanctions on Syria represent "one of its most far reaching and sophisticated sanctions" (Portela, 2012, p. 1) as "the EU deployed the virtual entirety of measures in the sanctions toolbox within less than a year" (Portela, 2012, p. 2). Few disagreements occurred among EU members which affected the sanctioning process as Sweden blocked sanctions on the telecommunication sector and Greece blocked an import ban on Syrian phosphates. In both cases, the blocking was due to underlying economic interests as Sweden's Ericsson provided services to the Syrian telecommunication sector while Greece relied heavily on imports of Syrian phosphates (Brunnstrom & Ringstrom, 2011; Waterfield, 2012). They were deliberately designed to cause extensive economic damage and specifically target the Syrian public sector and its finances¹⁰. However, the imposition of economic sanctions in an incremental manner - beginning with the regime's initial phase of targeted sanctions and towards the gradual implementation of sanctions on the oil sector followed by the gradual implementation of the various measures related to financial restriction - provided the Syrian regime with an opportunity for manoeuvre. However, when examining targeted sanctions on individuals and

entities, the EU was more comprehensive in targeting members of the political, military and security establishment and the business sector¹².

Among the secondary senders, Canada's sanctions were the most restrictive with 234 individuals and 57 entities subject to targeted sanctions in addition to a blanket ban on imports and finances (with few humanitarian exceptions) while its export sanctions were less restrictive, and similar to the EU, confined to dual use, surveillance and luxury items (Department of Justice, Government of Canada, 2019; Government of Canada, 2019). Other Western countries (Australia, Switzerland and Norway) closely aligned their sanctions with EU sanctions (Ministry of Foreign Affairs, Government of Norway, 2011; Department of Foreign Affairs and Trade, Australian Government, n.d.; Copley, 2011; "Syria hit by," 2011). Japan had the least restrictive sanctions confined to targeted sanctions of 59 individuals and 35 entities ("Japan extends sanctions," 2012).

As for regional sanctions, Turkish sanctions included asset freezes and travel bans on regime's leadership, although the exact figures are not clearly specific, as well as financial sanctions as dealings with Syria's public banks were severed ("Turkey imposes economic," 2011). The Arab League sanctions represented the first time that it imposes sanction on a League member. Targeted sanctions included 36 individuals of regime's leadership ("Sanctions raise the heat," 2011). Broader sanctions mainly targeted the Syrian public sector with the cessation of trade with the Syrian government except for essential goods, imposing asset freezes on Syrian public entities, prohibiting financial transactions with the Commercial Bank of Syria and the Central Bank of Syria. Other sanctions included a commercial flight ban to and from Syria and a freeze on current Arab investments in Syria. Enforcement procedures were to be determined by a technical committee, to be headed by Qatar, which undertakes the tasks of defining the essential goods exempted from the trade ban with the public sector, specific exemptions for neighbouring country and the monitoring system ("Nas 'uqubat jamiat," 2011).

4.4.2 The Phases of the Sanctions Episode

Four main phases of the Syrian sanctions regime can be identified related to changes in sanctions type, intensity and context. The first phase is associated with the first five months of the Syrian Uprising where sanctions were confined to targeted sanctions on individual and entities involved directly in the repression of the uprising. The second phase (August 2011 to October 2012), witnessed the development of the sanctions regime as - in addition to the increase in the numbers of those subject to targeted sanctions - sanctions extend towards trade, finance and services restrictions. These various sanctions targeted the Syrian energy, finance and public sectors as well as its repressive apparatus, political establishment, the presidential family and state-business networks. The third phase (December 2012 to February 2014) is associated with the transformation of the Syrian uprising into a full-scale military confrontation and thus the sanctions regime was eased to cater for humanitarian needs, exemptions for the

¹² Only a few key SOEs and sectors (phosphates and telecommunications) were spared from sanctions due to the blocking from specific EU members in an attempt to preserve their companies' economic interests.

opposition and financing the destruction of Syria's arsenal of chemical weapons. The final phase (May 2014 Onwards) is associated sanctions attempting to disrupt the adaptive measures pursued by the Syrian Government through targeting the newly evolved import procurement networks that ensures Syria's procurement of essential products¹³.

4.4.2.1 The first phase of the sanctions episode (April – August 2011)

The first phase of economic sanctions covers the early stage of the Syrian uprising in its mass protest phase. Sanctions were restricted to asset freezes and travel bans on high-ranking regime figures and entities. The constrained imposition of economic sanctions during this phase can be explained in light of the Obama Administration's multilateralism doctrine which emphasised operating under a UNSC mandate and coordinating with regional allies and institutions (Arslanian, 2019, p. 282). From their side, the US regional allies, Turkey and Qatar, opted for "capitalising on their strong ties with Assad" in order to "arrange a political soft landing" (Hokayem, 2013, p. 111). During this phase, both the US and the EU imposed five rounds of economic sanctions separately while the other Western countries followed suit aligning themselves with the US/EU sanctions. These sanctions targeted top government officials including the President and the vice president, the security services (directorates, directors and directors of branches involved directly in the crackdown) and top business associates targeting the Makhoul empire, both family members and affiliated companies, and businesspeople associated with the President's brother Maher al-Assad. In addition, several Iranian individuals and entities involved in the crackdown were targeted (Executive Order (US) 13572, 2011; Executive Order (US) 13573, 2011; US Department of the Treasury (USDT), 2011 June; USDT, 2011, August 4; USDT, 2011, August 8; Council Regulation (CR) (EU) No 442, 2011, p. 8; Council Implementing Regulation (CIR) (EU) No 504, 2011, p. 46-47; CIR (EU) No 611, 2011, p. 2-3; CIR (EU) No 755, 2011, p. 34; CIR (EU) No 843, 2011, p. 2-3).

4.4.2.2 The second phase of the sanctions episode (August 2011 – October 2012)

The second phase of economic sanctions was associated with a change in Western countries' stance from the Syrian crisis. The change was triggered by the increase in regime brutality and by regional players, Turkey and the Arab League, taking a more aggressive stance against the regime leading to the joint calls of Western leaders for Assad to step aside on August 18, 2011 (Arslanian, 2019, p. 281). Sanctions took a broader scope in terms of magnitude and type with an increase in the number of targeted individuals and entities, their extension towards from members of the repressive apparatus to members of the political establishment and SOEs and, more importantly, their extension from targeted sanctions towards sanctions in trade, finance, investment and services. Furthermore, the sanctioning coalition extended to regional players as both Turkey and the Arab League imposed their own one-off and less comprehensive sanctions (Arslanian, 2019, p. 283-284).

¹³ As the sanctions episode is an on-going episode, the chapter will discuss the development of the sanctions regime since its inception in April 2011 up till the end of 2016 which represents the end of the second period of the Syrian conflict.

The EU assumed leadership in the sanctioning coalition implementing 15 rounds of economic sanctions and targeting 145 individuals and 46 entities. The EU import ban on Syrian crude oil and petroleum products represented the hallmark of this phase as the EU represented Syria's main oil export partner. Asset freezes and travel bans on individuals extended to middle-rank officials in Syria's repressive institutions, members of the cabinet and politically-connected business figures. This phase witnessed the continuation of targeting entities associated with the Makhoul empire while expanding to target Syria's SOE especially public banks and oil companies and private companies allegedly acting on behalf of Syrian SOEs (SIIB and Altoun Group). In addition to the oil import ban, trade sanctions included export ban on items used in repression such as dual-use goods and monitoring software and equipment and an export ban on luxury goods. Trade sanctions were complemented by various sanctions in the domains of finances and services (banknotes' delivery, bonds, loan provision, cargo and passenger flights operated by Syrian Arab Airlines and the provision of insurance and re-insurances to Syrian public entities).

The US, on the other hand, was more constrained in its resort to targeted sanctions with 37 individuals (including 1 non-Syrian) and 17 entities (including 3 non-Syrian entities) added to its blacklist mainly including cabinet members, oil-related SOEs and entities of the repressive apparatus. Nevertheless, the US resorted to blank clauses in its trade and financial restrictions prohibiting US personal from operating and investing in Syria or undergoing any transaction with the Syrian government.

It was during this phase that regional sanctions (The Arab League and Turkey) were imposed in a single round October/November 2011 with asset freezes and travel bans imposed on high-ranking regime figures and financial ties with Syrian state banks severed. The Arab League went further imposing an investment freeze, a commercial flight ban and trade prohibitions with the Syrian public sector ("Nas 'uqubat jamiat," 2011; "Turkey imposes economic," 2011).

During this phase, the sanctioning coalition failed to universalise the sanctions regime, through referring the case to UNSC, as the case was vetoed twice by Russia and China (Oct 2011 – June 2012). Among other foreign tools, this phase was associated with failed UN/Arab League diplomatic initiatives. Furthermore, it witnessed the gradual increase in military support to the Syrian opposition leading to a gradual shift in Syrian opposition tactics from protests towards military operations and the Syrian uprising transforming into a full-scale military conflict in mid-2012 (Arslanian, 2019, p. 283-287).

4.4.2.3 The third phase of the sanctions episode (December 2012 – February 2014)

The role of economic sanctions subsided with the growing importance of military statecraft and the sanctions imposed during this period were mainly a series of exemptions attuned to the militarisation of the conflict, the territorial recessions of the Syrian government, territorial gains of the Syrian opposition and the burgeoning humanitarian crisis. With the aim of empowering the Syrian political opposition the Syrian National Coalition for Opposition and Revolutionary Forces (SNCORF), exemptions to the sanctions regime were provided to its benefit in the oil and

finance sectors, following the Syrian military opposition's expanding its control over Syrian territories, especially the resource-rich Eastern region (Arslanian, 2019, p. 290). The EU allowed the import of Syrian oil and petroleum products in addition to provision of the related finance and insurance services in consultation with the SNCORF while the US extended its case-by-case specific license scheme to entail the petroleum, agricultural and telecommunication sectors to the benefit of SNCORF (CR (EU) No 697/2013, 2013, p. 28-31; OFAC, 2013a). Another form of exemption was associated with the growing humanitarian crisis associated with the escalation of military conflict and the need to avert a complete humanitarian breakdown. Within this context, the EU exempted the prohibition of financial dealings with the Commercial Bank of Syria for trade in essential humanitarian needs such as "medical supplies, food, shelter, sanitation or hygiene" (Council Decision (CD) 2013/760/CFSP, 2013, p. 50) while the US issued the General Licence No. 11A authorising NGOs to deal with the Syrian government and export to Syria in matters related to meeting humanitarian needs (OFAC, 2013b). The final exemption was related to the destruction of Syria's arsenal of chemical weapons, based on the September 2013 agreement and UNSC Resolution No. 2118, where the EU exempted its asset freezes on the Central Bank of Syria, among other SOEs, for that cause (CD 2014/74/CFSP, 2014, p. 63). As for targeted sanctions, the US continued imposing asset freezes and travel bans albeit on a lower scale (11 individuals and 3 entities) targeting new cabinet members, al-Qaida affiliates and pro-regime para-military formations (USDT, 2012 December; USDT, 2013).

4.4.2.4 The fourth phase of the sanctions episode (May 2014 onwards)

The US assumed leadership during this phase and focused mainly on targeting the Syrian Government's newly developed import procurement networks, as a means for circumventing the sanctions regime, and which involved a complex network of local, regional and international companies (Arslanian, 2019, p. 294). While these networks will be discussed in more detail in the following chapter, it is important to highlight their main feature. The general objective of these networks is to facilitate the purchase and shipment of a product (e.g. an oil derivative, military equipment etc...) from an international company to a Syrian public entity through relying on several local and regional intermediaries. Their structure involves a local private company, acting as a front for the Syrian public entity, that coordinates with a regional company (usually based in Lebanon or UAE). This regional company assumes the task of the shipment facilitator (consignee, insurance procurement and payment arranging) through coordinating with other regional companies or international companies owned by Syrian expatriates. Thus, sanctions became predominantly extra-territorial during this phase. However, some networks were of domestic nature involving deals between the Syrian government and rival armed factions involving the purchase and the transport of wheat and oil derivatives through local middlemen (USDT, 2015 November). As a complementary measure to sanctions on procurement networks, the US imposed sanctions on Syria's ports, shipping agencies and oil refineries (USDT, 2014 May; USDT, 2015 March). The EU, from its side, continued to target new members of the Cabinet and regime-associated businesspeople in addition to targeting some of the US-targeted import procurement networks (Council Decision 2014/901/CFSP, 2014, p.28-29; Council Implementing Regulation (EU) 2015/375, 2015, 10-14; Croft, 2015).

During this phase and in parallel to the sanctions regime targeting the Syrian regime, a different sanctions regime emerged, at the UN level, targeting al-Qaida related groups involved in the opposition's of the Syrian conflict, namely al-Nusra Front and the Islamic State in Iraq and the Levant, and prohibiting any transactions with such groups (Haid et al. 2017).

To conclude, the second phase of the sanctions regime (August 2011 – December 2012) represents a turning point in the trajectory of the sanctions episode as measures were broadened from targeted personal sanctions on high level officials towards restrictions in trade, finance and services, from one side, and towards a wider scope of persons and entities, from another. This, in turn, implied that sanctions during this phase had begun to inflict heavy costs on the Syrian state, as well as other social groups, inducing the necessity for undertaking a change in domestic actors' strategic responses. On the other hand, the third and fourth phases of the sanctions regime are associated with the transformation of the Syrian conflict into a full-scale militarised one with repercussions on the territorial consolidation of opposition-related groups, the rise of new target groups represented by al-Qaida affiliated factions within the Syrian opposition, from one side, and the emergence of a humanitarian crisis, from another. This has led to the divergence in the sanctions regime between regime and opposition-held areas. Overall, these phases will contribute towards periodising the assessment of the intervening role of economic sanctions in the Syrian conflict as will be illustrated in the forthcoming chapters.

4.5 The Targeted Economic Sectors and Political Groups

In terms of economic sectors, economic sanctions primarily targeted three inter-related sectors of energy, finance and the public sector. In terms of political groups and institutions, the Syrian repressive apparatus, the Syrian political establishment and segments of the Syrian business class.

4.5.1 Energy sector (Hydrocarbon sector)

All Western countries, except for Japan, have imposed sanctions on the Syrian energy sector although. US companies had already pulled off from the Syrian market in the 2000s following SALSRA and the current sanctions episode banned the import of Syrian petroleum, prohibited US citizens from any transactions related to Syrian Oil and imposed asset freezes on several public companies. This was complemented by a general ban on operating or investing in Syria. The U sanctions were of paramount significance giving that the vast majority of Syrian exports were destined to the EU. The main sanctions on the energy sector were imposed during the second phase between August 2011 and January 2012 and comprised of a series of prohibitions and asset freezes on public companies operating in the sector. Prohibitions were imposed on the imports of Syrian crude oil and petroleum products, on the supply of equipment and technology to the sector, on investment in addition to the provision of any services that facilitate prohibited activities such as financial, technical, insurance and re-insurance services.

The table below provides details on the sanctions imposed on the public companies, and their joint ventures with international companies, in the sector.

Table 4.1: List of Syrian Companies Involved in the Oil & Gas Sector Subject to US/EU Sanctions			
Company Name	Sanctioned Date		Description
	US	EU	
General Petroleum Corporation (GPC)	18.08.2011	01.12. 2011	State owned oil company. "Oversees the strategies for exploration, development, and investment in Syria's oil and gas sector, and supervises the activities of its numerous affiliated companies" (Energy Information Administration (EIA), 2013)
Syrian Gas Company (SGC)	18.08.2011		State-owned oil company affiliated with GPC
Syrian Petroleum Company (SPC)	18.08.2011	23.03. 2012	State-owned oil company affiliated with GPC
Al Furat Petroleum Company		01.12. 2011	Joint venture between the SPC, Royal Dutch Shell, the Chinese National Petroleum Company (CNPC), and India's Oil and Natural Gas Corporation (ONGC). (EIA, 2013)
Deir ez-Zur Petroleum Company		23.01.2012	Joint venture between GPC and Total S.A. (General Petroleum Company, n.d.)
Ebla Petroleum Company		23.01.2012	Joint venture between GPC and Petro-Canada (General Petroleum Company, n.d.)
Dijla Petroleum Company		23.01.2012	Joint venture between GPC, Gulf Sands Petroleum and Ocean Energy ***
Syria Trading Oil Company (Sytrol)	18.08.2011	01.12. 2011	State-owned company responsible for Syria's exports of crude oil and petroleum products
Mahrukat Company		23.03. 2012	The Syrian Company for the Storage and Distribution of Petroleum Products Responsible for the import of petroleum products in coordination with Prime Ministry (Mahrukat Company, n.d.)
Syrian Company for Oil Transport (SCOT)	18.08.2011	25.06.2012	"manages the Syrian pipeline system, including its international connections with Iraq" (EIA, 2013)
Homs Refineries	08.05.2014	23.07.2014	
Banias Refineries	08.05.2014	23.07.2014	
Source: USDT (2014, May 8); CD (EU) 2011/782; CID 2012/172; CR (EU) No 545/2012; CIR (EU) No 55/2012			

Sanctions on both the sector's overseeing corporations and companies (GPC, SGC, SPC) and on specific joint ventures (Al Furat Petroleum Company, Deir ez-Zur Petroleum Company, Ebla Petroleum Company, Dijla Petroleum Company) implied that the European companies (Total S.A., Royal Dutch Shell, Gulf Sands Petroleum and Ocean Energy) involved had to cease their

operations in these joint ventures. While sanctions on Sytrol, the company responsible for Syria's exports, complemented the EU import ban, and although the EU did not impose sanctions on oil exports to Syria directly, imposing sanctions on 'Mahrukat' company, responsible for Syria's imports of petroleum products, implied restrictions on EU firms' ability to export petroleum products to Syria.

While sanctions on the energy sector were put in place during the second phase of the conflict, they evolved during the latter phases. During the third phase, exemptions in relation to transaction with the Syrian opposition were enacted following their control over several production sites while, during the fourth phase, the newly developed import procurement networks in petroleum products were targeted and, within this context, sanctions on Syria's two refineries (Homs and Banias) were imposed.

4.5.2 The Financial Sector

Bank Name	US Sanctions	EU Sanctions	Description	Vulnerability to Sanctions
Real Estate Bank	01.12.2011	02.09.2011	Specialised in the finances of real estate and construction	Responsible for launching Syria's network of ATM and payment cards system
Commercial Bank of Syria	Aug 10, 2011	13.10.2011	Syria's Largest Bank (Assets – loans) Only public bank mandated for foreign trade transactions	External trade financing Retains a fraction of Syria's foreign reserves
Industrial Bank	16.10.2014	23.01.2012	Specialised in the finances of the industrial sector	No international dealings
Saving Bank	16.10.2014	23.01.2012	Responsible for micro-financing	No international dealings
Agricultural Cooperative Bank	16.10.2014	23.01.2012	Responsible for providing loans to the agriculture sector	No international dealings
Syrian Lebanese Commercial Bank	10.08.2011	23.01.2012	The Subsidiary of the Commercial Bank of Syria in Lebanon	Processing Syria's trade through Lebanon
Central Bank of Syria		27.02.2012		Manages foreign exchanges Syria's access to capital market
Syrian International Islamic Bank	30.05.2012	25.06.2012	A Syrian private bank sanctioned for acting as a front for the Commercial Bank of Syria	

USDT (2011, August 10); USDT (2011, December 1); USDT (2012, May 30).
Council Implementing Regulation (EU) No 55/2012; Council Regulation (EU) No 878/2011; Council Regulation (EU) No

A wide range of restrictive measures targeting the Syrian financial sector were imposed during the sanctions regime's second phase and, more specifically, between September 2011 and February 2012 by members of the sanctions coalition. Both the EU and the US imposed an asset freeze on Syrian state-owned banks including the Central Bank of Syria, as detailed in Table 4.2 below. Among the public banks, the Industrial Bank, Saving Bank and Agriculture Cooperative Bank lacked any relations with international financial system. As for the Real Estate Bank, its interaction with the international financial market was related to its undertaking of Syria's network of ATM and card payment system. The Commercial Bank of Syria, and its Lebanese subsidiary, were responsible for financing Syria's external trade, "through the most common mechanism of letters of credit (LCs) issued by the bank" ("EU bans dealing," 2011) while the Central Bank of Syria managed most of the state's foreign exchange reserves and represented the Syrian state in international financial market and clearance systems. The EU prohibited financial relations between Syrian and European financial institutions including establishing joint ventures, opening new branches or banking accounts while the US blanket ban on operations and investment in Syria implied similar prohibitions.

In terms of financial transactions, the US imposed a ban on USD transactions and consequently on the use of credit payment systems such as Visa and Master Card (Frieberg Lyme, 2012, p. 32). On the other hand, the EU prohibited banknote delivery to Central Bank of Syria, financial engagement in "Syrian public or public-guaranteed bonds" and a trade in precious metals. The final measure was intended to avoid the replication of the Iranian method in bypassing financial sanctions through using precious metals in international financial transactions. The EU restrictions of financial transactions with Syrian state bodies was complemented what Friberg Lyme (2012) termed as "an elastic restriction" on Syrian nationals in general through "calling on member states to 'exercise restraint' in providing credits, guarantees, insurance or other financial support to [Syrian] nationals" (p. 32). Regional sanctions were limited to severing financial dealings with state-owned banks and Syrian public bodies. The final variety of financial sanctions involved the financing of projects whether through direct investment or through loan provision. Within this context, the US applied a blanket ban as mentioned previously, Canada imposed a ban on new investments while the EU imposed an investment ban in the oil sector in addition to and the disbursement of loans by the European Investment Bank (EIB) to Syria. From their side, the Arab League imposed a freeze over state members' financing of existing projects in Syria.

4.5.3 The Syrian Economic Government Sector (The economic role of the Syrian State)

The aforementioned sanctions on the Syrian energy and financial sectors in conjunction with sanctions on other SOEs and non-financial services such as sanctions on cargo flights and on providing insurance and reinsurance to public bodies represent a deliberate targeting on the economic role of the Syrian state. The array of economic sanctions targeting the Syrian public sector can be divided into sanction public revenue and wealth – and sanctions constraining

Syria’s transaction capacity. Asset freezes on Syrian public banks and top regime figures, sanctions on the oil sector and profitable SOEs (Tobacco and Cotton) are aimed at depriving the Syrian state from access to revenue and its accumulated wealth. On the other hand, sanctions on financial transaction, provision of services of insurance and re-insurance and ban on cargo flights are aimed at curtailing the transaction capacity of the Syrian state. Within this framework, the targeting the of the import procurement networks can be viewed as targeting the government transaction capacity and, similarly, sanctions the port companies of Tartous and Latakia can also be categorised as an attempt to inhibit the transaction capacity of the Syrian state.

SOEs	US Sanctions	EU Sanctions	Rationale for Sanctioning
Military Housing Establishment	01.12. 2011	23.06.2011	Role in the repressive apparatus
General Organisation of Tobacco		14.05 .2012	Revenue generating
Cotton Marketing Organisation		24.07.2012	Revenue generating
Syrian Arab Airlines		24.07.2012	constrain transaction capacity
General Organisation of Radio and TV	05.03.2012		Role in the repressive apparatus
Syronics – Syrian Arab Co. for Electronic Industries		01.12.2011	Role in the repressive apparatus acting as front company for Scientific Studies Research Center (SSRC)
Tartous Port General Company	08.03.2015		constrain transaction capacity
Syrian Shipping Agencies Company	08.03.2015		constrain transaction capacity
Lattakia Port General Company	08.03.2015		constrain transaction capacity

4.5.4 The Syrian repressive apparatus

Sanctions on the Syrian repressive apparatus consists of both targeted sanctions on Syria’s different competent entities and individuals and export bans on arms, surveillance software, dual-use goods and jet fuel. Syria’s repressive apparatus consists of its formal institutions, its military establishment and its affiliated scientific research centres, the directorates of its security services (General, Air Force, Political and Military) and police forces as well as informal paramilitaries, their businesspeople funders and cyber volunteers (the Syrian Electronic Army). Whereas US sanctions were restricted to entities and key personal, EU sanctions extended to mid-level officials culminating to more than 100 individuals on its sanctions list as detailed in the Appendix 1.

4.5.5 The Syrian political (civil) establishment

This mainly comprised of targeted sanctions against the members of the Syrian cabinet/ Syrian Ministers, it changes and reshuffles. While sanctions initially targeted ministers, whose ministries were more directly involved in repressing the protest movement such as Ministers of

Defense and Interior, it gradually extended to less involved ministers. With the formation of the Cabinet, following the May 2012 parliamentary elections, Both the US and the EU sanctioned all its members. While the EU continued this practice throughout the sanctions episode – sanctioning the complete Cabinet formed after the 2014 Presidential elections and 2016 Parliamentary elections and their minor reshuffles – the US was less involved in targeting subsequent cabinet members. Overall, the EU sanctioned (95) individuals while the US targeted (45) individuals as detailed in the Appendix 2.

4.5.6 The Syrian business sector

Two periods can be distinguished regarding imposing economic sanctions on the Syrian private business sector. The first period is associated with the first two phases of economic sanctions. During this period, the first class of regime cronies and their companies were targeted under the pretext of funding the regime or being a business associate with Maher al-Assad. The Makhlof financial empire was targeted extensively including the Cham Holding Company and its various subsidiaries and the Syrian telecom company, Syriatel. Other prominent regime cronies included Muhammad Hamsho, Nizar Assad. The second period is associated with the fourth phase of economic sanctions, from 2014 onwards, as less prominent businesspeople were targeted in relation to their role as front companies or middlemen for public companies within the newly developed import procurement networks.

A final category that can be added is the related to targeting the **presidential family**, as in addition to targeting the Assad/Makhlof clan within their official capacity as member of the regime's security/military/political/business elite, EU sanctions expanded to the female members of the Assad/Makhlof clan based on their "close personal relationship" with the ruling elite (Council Implementing Decision 2012/172/CFSP, 2012, p. 103; Council Implementing Decision (EU) No 944/2012, 2012, p. 12). Furthermore, the export ban on luxury goods was instigated by the leaked emails of the President's wife, Asma al-Assad, indicating her online shopping habits of the latest fashion trends (Friberg Lyme, 2012, p. 31).

4.6 The Projected Impact on Syria's Political Economy

As mentioned, the wealth & revenue depriving economic sanctions are projected to pose a serious threat to the country's external and internal macro-economic balances. Taking into account the significant share of Syria's oil exports and oil-related revenue in its trade balance and public budget respectively, the loss of oil revenue would increase the country trade and public budget deficits. This, in turn, has the projected impact of adversely threatening the country's public expenditure and its import capacity. As a second order effect, this is projected to threaten the country's growth rates and create pressure on the Syrian Pound externally and inflationary pressures domestically. The abovementioned pressures are projected to be further exacerbated by the transaction-constraining sanctions on the Syrian public sector. Given the centrality of Syrian public financial institutions in arranging Syria's international transactions, these sanctions are projected to transcend their intended target towards constraining the

private sector's transaction capacity and therefore threatening the private sector's trade and capital flows.

The aforementioned factors will threaten the country's capacity to meet its populist commitments. The general decline in public revenue has the projected impact of threatening the state's ability to meet its public expenditure threatening its capacity in paying public salaries, subsidising essential products and social services. More specifically, the challenges to import procurement could have the projected impact of threatening the country's ability to procure petroleum products, agricultural inputs and essential consumption products not produced locally. Within this context, the export ban on dual use goods is projected to specifically affect the capacity to import fertilizers and pharmaceuticals affecting the agricultural and health sectors specifically. Some of the targeted sanctions on regime cronies is projected to further constrain the country's ability to import essential consumption products not produced locally, most notably the role of Tareef Akhras in importing sugar and Issam Anbouba in importing vegetable oils. Finally, given that the country's overvalued exchange rate represents a form of consumption subsidisation, economic sanctions with their pressure on the exchange rate could threaten the erosion of such a subsidy.

There are three main channels through which sanctions could impact the Syrian business class. The first is related to the Western targeted sanctions on members the Syrian business class. Within this category, targeted sanctions on civil servants and military personal can also be viewed as sanctions on the Syrian state bourgeoisie. The second channel is related to Arab League sanctions as the freezing of existing projects could affect the regime cronies/Gulf capital alliance which represents the basis of third wave of business class reconfiguration. Finally, the overall related decline in economic activity will have a general negative on the Syrian business class. The combination of these factors could lead the Syrian business class to reconsider its relation with the Syrian state.

To conclude, the sanctions regime through its potential severance of Syria's dual integration with the global economy has the potential to adversely affect the Syrian regime's 'two-fold strategy' in co-opting both its business and populist classes and thus threatening the regime's ruling coalition.

4.7 Conclusion

Syria's episode of economic sanctions is an ongoing episode that was initiated in April 2011 as a response to the Syrian government's brutal crackdown of the protest movement and aimed at coercing the Syrian government towards accepting power sharing agreements with the Syrian opposition. The sanctioning coalition comprised of Western and regional countries and organisations with the EU and the US representing its primary senders who've led the sanctioning campaign while other Western countries (Canada, Australia, Norway, Switzerland and Japan) and regional players (Arab League and Turkey) represented the coalition's secondary senders who joined the sanctioning campaign.

Economic sanctions represented a specific foreign policy tool, among other tools, imposed by members of the sanctioning coalition, including diplomatic initiatives, diplomatic sanctions and military statecraft which was mainly manifested through providing military support to the Syrian opposition. The applied economic sanctions' measures covered targeted sanctions on individuals and entities, selective import and export restrictions and a variety of financial and service-related sanctions with the oil import ban representing the hallmark of the episode. These measures varied among members of the coalition with the US and Canada being the most comprehensive and regional players and Japan being the least comprehensive. However, the EU represented the gravity of the sanctioning episode in light of its economic leverage over Syria, and even though its sanctions were less severe in comparison with the US and Canada, were unprecedented in terms of the speed of enforcement and the range of tools used in comparison with other EU cases.

The sanctions regime can be periodised into four main phases. The first phase (April – August 2011) is confined to targeted personal sanctions on high level officials and regime figures. The second phase (August 2011 to August 2012) witnessed the broadening of sanctions measures to include trade restrictions, financial and services sanctions in addition to the broadening the scope of targeted person and entities to include the Syrian political establishment, business community and the state's economic sector. The third phase (December 2012 – February 2014) entailed a series of exemptions (opposition-related, humanitarian and WMD destruction-related) related to repercussions of the militarisation of the Syrian conflict. The fourth phase (May 2013 Onwards) aimed at disrupting the Syrian regime's adaptive measures to economic sanctions with the targeting of the import procurement networks developed to secure the flow of essential imports.

The Syrian oil & gas sector, the financial sector and the public sector represented the main economic sectors targeted by the sanctions regime while the Syria's repressive apparatus, its political establishment, regime cronies and the presidential family represented the main targeted institutions and social groups. In terms of their direct projected impact, economic sanctions can be divided into wealth and revenue depriving, essential goods' procurement depriving and transaction inhibiting sanctions. The confluence of these different direct effects affects the macroeconomic balances of the Syrian economic – More specifically, the EU oil ban – in conjunction with other sanctions -, and through its adverse impact on public revenue, affects the Syrian regime's capacity of financing its populist commitments embodied in public salaries, public subsidies and social services. Regional sanctions – in conjunction with western sanction on Syrian businesspeople – threaten the collapse of Syria's reconfigured business class which represented an alliance of regional, Syrian expatriate and local regime cronies' capital.

Chapter Five: The First Period of the Sanctions Episode (2011 - 2012)

5.1 Introduction

After discussing the Syria's political economy prior to the imposition of economic sanctions in Chapter 3 and the sanctions regime in Chapter 4, the next step involves addressing the interaction of the international and domestic factors in shaping the outcome of the sanctions episode. This chapter will cover the first two years of the episode (2011-2012) which is associated with the early period of the Syrian conflict prior to the altering of the country's economic structure by the escalation of the conflict into a full-scale military confrontation. This period of Syrian conflict is associated with the first two phases of the sanctions regime. As discussed in the previous chapter, the first phase being restricted to targeted sanctions had minimum economic impact on the target country while the shift to the second phase, in August 2011, with the imposition of the oil import ban followed by other sectoral sanctions were designed to significant economic impact on the target country. As such, this chapter will consider the shift in the sanctions regime from its first to its second phase as the turning point which alters the Syrian state's contesting forces' strategies.

The Syrian conflict is situated within the wave of the Arab uprisings - dubbed as the Arab Spring – that stormed the Arab countries beginning in Tunisia in the late 2010 and was followed by waves of protests in the other Arab countries in 2011. The early cases of Tunisia and Egypt carried an ostensibly smooth ousting of their presidents in contrast to the subsequent and prolonged Libyan, Yemeni and Bahraini uprisings as they were integrated within the political dynamics of the region. Consequently, the stance of the regional countries from these uprisings varied based on their perceived impact on their foreign policy interests. The Arab League, backed by the Gulf countries, referred the Libyan case to UNSC triggering a NATO-led No Fly Zone and descending the country towards a civil war. Conversely, the Bahraini uprising in light of its Shiite orientation and Iranian links was militarily suppressed through the intervention of the GCC's Peninsula Shield Force. Within these regional conditions, the Syrian uprising erupted. The Syrian uprising was sparked by the 'Adolescents of Dar'a incident in Syria's rural south in which a group of teenagers were detained by security forces in response to their writing of Arab Spring-inspired graffiti. The incident had a snowball effect leading to mass demonstrations across the region of Deraa, throughout March 2011, following the security authorities' refusal of pledges for their release from the region's notables, its use of live ammunition in quelling the protests and the President's defiant speech (Barout, 2012, p.173 -219).

This chapter is structured as follows. First, the chapter will address the state contestation strategies of both the Syrian regime and the nascent opposition movement as well as the response of Syria's two broadly-defined classes, its business and populist classes and how the shift in the sanctions regime affected those strategies. The second step is related towards addressing the role of the international factors, the senders' attributes and third countries

behaviour, in implementing the sanctions regime. Afterwards, the implementation of the regime's counter-strategy within the opportunities and constraints set by both international and domestic factors will be discussed. The final step shows the impact of all these factors on the country's integration in the global economy, its political economy and its contestation for state power. Finally, the conclusion will highlight how international factors interacted with domestic factors to shape the sanctions outcome.

5.2 The Socio-political Contestation for the Syrian State

5.2.1 The Uprising related strategies

5.2.1.1 Regime Strategy

The Syrian regime's response to the uprising involved a combination of co-optative, concessional and repressive measures aimed at reconfiguring the regime's coalition, neutralising specific socio-political groups and weakening the opposition coalition. Regime concessions addressed both local-level demands of the protest movement and national-level issues. On the local level, the regime complied to several demands related to dismissing governors and security officials, allowing veiled female teachers to return to teaching¹⁴ and repelling laws restricting reconstruction in border regions (ICG, 2011, p. 15). On the national level, the regime initiated a minor political and legislative reform package. This package included forming a new cabinet, abolishing martial laws, releasing political prisoners, launching a national dialogue initiative, drafting a new constitution and setting the legislative framework for functioning political parties. Nevertheless, concessions were extremely limited as drawing from previous Arab Spring experiences that concessions result in being ousted from power, the Syrian regime sought to demonstrate resolve and avoid appearing in a position of weakness (Lesch, 2018, p. 135). Within this context, pro-government rallies were mobilised in the country's cities, presidential speeches retained a defiant tone, regime officials and official media depicted the protests as a foreign plot and a sectarian sedition and, finally, there was an emphasis on maintaining a "sense of normalcy" alluding that protests are too trivial to having an impact with "Syria is Fine" becoming a symbolic catchphrase (Barout, 2012, p. 193-194, 213-214; ICG, 2011, p. 4, 23). Furthermore, the regime resorted to repressive measures using occasional lethal violence against protestors especially in its dismantling of protestors' attempts to replicate the Egyptian Revolution's Tahrir Square sit-ins (Barout, 2012, p.249-252). 'Clearance operations' were conducted where the army and security services occupying "key centres of unrest and conduct[ing] large scale cordon and search operations" in an attempt to dismantle embryonic militarised networks (Holliday, 2011, p. 13).

In light of the rural base of the protest movement, the regime's main co-optation strategy entailed restoring some aspects of its populist social contract. This included increasing public salaries and public employment, raising gas oil subsidies, public investment in infrastructure and

¹⁴ Background of veiled teachers

wheat procurement prices (ICG, 2011, p. 24)¹⁵. Other co-optation measures aimed at neutralising several socio-political groups and dissuading them from joining the protest movement. To begin with, there was the **Kurdish population**, Syria's largest ethnic minority, representing around 10% of the country's population, locating mainly in the rural north eastern part of the country, and have traditionally held antagonistic relations with the regime. In this matter, Assad met many of their political leaders, released many Kurdish political prisoners, pledged the celebration of Nawruz, the Kurdish New Year, as a national holiday and, most importantly, promised to grant citizenship to deprived Kurds following the 1962 census (ICG, 2011, p. 14). Another constituency was the **Damascene Islamic scholars** and, behind them, the Damascene traditional bourgeoisie. Within this context, the Syrian authorities agreed to close the recently opened Damascus Casino as well as sponsor the launching of a religious satellite channel in return to their public announcement of their support to the regime's reform process (ICG, 2011, p. 14). It should also be reminded that the increase in public salary pay and employment falls within the category of **dissuading civil servants** from joining the protest movement. **Syria's religious minorities** were another constituency to address. Although no explicit measures were taken, the very representation of the uprising as a sectarian sedition and the emphasis on the presence of Salafist radicals were meant to raise the sectarian fears of Syria's different religious minority communities.

5.2.1.2 The formation of a nascent opposition movement

A nascent opposition movement comprising, from one side, of a grassroots protest movement and, from another, of Syria's traditional political opposition. The protest movement evolved in terms of its geographical coverage, objectives, strategies and organisational structure. Within less than six months, the protest movement expanded from the region of Dar'a towards a nationwide movement. In parallel to this geographical expansion, there was an escalation in protestors' demands from general notions of freedom and dignity, expressions of solidarity with Deraa region and local-level issues towards demanding the outright downfall of the Syrian regime and rejecting regime's diplomatic initiatives. The protest movement's strategy also evolved from sporadic protests towards deliberate attempts of replicating a Syrian version of the Tahrir Square and arranging civil disobedience at the city¹⁶. Organisationally, the initial local-level networks 'tansaqiya' coordination groups whose original task revolved around protest organisation and media dissemination coalesced under wider umbrellas and elaborated their political discourse and vision (Lund, 2012, p.38, 40; Abu Assi, 2011). This was paralleled with the reactivation of Syria's traditional political opposition both inside Syria and in exile, with growing

¹⁵ The newly formed cabinet alluded to this process with the appointment of the previous cabinet's Minister of Agriculture as Prime Minister and the dismissing of the Deputy Prime Minister for Economic Affairs, Abdullah al-Dardari – the architect of Syria's liberalisation process – from his position ("New government marks," 2011).

¹⁶ The protest movement also resorted to discreet use of violence, most the case of Jesr al-Shoughour while its mobilisation strategy relied extensively on exposing regime brutality through uploading such acts on social media

ideological demarcations between the two, as the former formed the National Coordination Committee (NCB), a coalition of left-wing Marxist and Arab Nationalist parties, while the latter, with predominantly Islamist and liberal political orientations, arranged several meetings and conferences in exile mostly in Turkey (Lund, 2012, p. 41-42).

5.2.1.3 The populist classes response to the Syrian uprising

The Syrian uprising represented essentially a populist backlash against the second stage of authoritarian upgrading. The backlash comprised of a wide array of Syria's rural population and cities' outskirts dwellers whether local (indigenous) traditional artisans (Damascus/Ghouta region) or quasi-proletariats from rural descent (Latakia, Homs and southern Damascus). Nevertheless, the populist universality of such an uprising was truncated both by Syria's ideational divisions (ethnic, sectarian & tribal etc..) as well as the disproportional impact of Syria's second stage of PPA on different regions and social strata. Beginning with ideational factors, Syria's Heterodox Islamic communities (Alawites, Druze and Ismailis) and Christian communities, all together comprising 25% of the population, generally demonstrated allegiance to the regime "fearing discrimination under Sunni Arab majority rule" (Phillips, 2015, p. 357; Sayyed Rassass, 2011 August). Whereas the Kurds refrained from joining the protest movement *en masse* given their distrust towards the political opposition, regime's concession measures and their leadership's pursuance of a 'third way' which focused on local consolidation of power (Cifci, 2018, p. 309-310; p.320-321; ICGa, 2013, p. 7-14). Within the Sunni Arab rural communities, tribal, familial and other local-level politics played their role in truncating the spread of the uprising (Barout, 2012 p. 384-385; Phillips, 2015, p. 360).

Besides ideational factors, economic factors had their impact on determining the stance from the uprising. Aleppo's populist classes, both its city dwellers and adjacent rural inhabitants, were less likely to join the protest movement benefiting from trickle down effects of Aleppo's pre-uprising boom and uprising-related economic activity¹⁷ (Barout, 2012, p. 374). Rural regions dependent on water surface irrigation were less likely to join the Syrian uprising in comparison with other regions dependent on groundwater irrigation system as the latter regions suffered from the dual impact of higher gasoil/diesel prices and the decline in groundwater levels, with adverse impact on irrigation pumping costs and agriculture production. Within this context, a comparison can be drawn between the case of the Governorate of Raqqa, dependent on the irrigation networks connected to the Euphrates Dam, and the Governorates of Idlib and Dar'a both dependent on groundwater for irrigation purposes (Barout, 2012 p. 259; Sayyed Rassass, 2011 August). Furthermore, civil servants and other state-dependent employees were less likely to join the protest movement and by similar logic, regions deprived from public employment opportunities such as in Baniyas and Homs were more likely to join the uprising (Barout, 2012, p. 229; Sayyed Rassass, 2011 August). These populist divisions had their impact on the structure of the Syrian military establishment as, from one side, it began to witness defections from the

¹⁷ Following the uprising, Aleppo benefitted from the government's toleration of illegal housing construction as well as the economic activity associated with the flow of IDPs (Barout, 2012, p. 375-376).

lower ranks of the army among the Sunni Arab denomination while irregular fighters from the Alawite denomination (Bayoumi, 2011). Furthermore, such divisions led to sectarian clashes in mixed cities such as Homs (Barout, 2012, p. 286)

5.2.1.4 The business class response to the Syrian uprising

The stratification of the Syrian business class implied the absence of a unified stance towards the uprising as responses varied based on each stratum's level of political positionality (Abboud, 2013, p. 1-2). In one extreme, there were the regime cronies, the 'organic' business elite, who demonstrated outright support to the Syrian regime while, on the other extreme, there were opposition supporters comprising of Syria's expatriate business community, the ousted members of Syria's 'dependent' business elite and the business community in regions marginalised during the aught such as Douma, Homs, Hama and Deir ez-Zour (Abboud, 2013, p. 3-4; Barout, 2012, p. 209; Yazaji, 2014, p. 3)¹⁸. In the middle position, there were the 'dependent' business elite, whose wealth was dependent on its regime connections, and small and middle-sized traders and manufacturers who benefited from the trickle-down effects of the latest the economic liberalisation measures especially in Damascus and Aleppo (Abboud, 2013, p. 2; Barout, 2012, p. 374).

5.2.1.5 The socio-political contestation for state power during the first phase of the sanctions regime

On the eve of the shift in the sanctions regime, the socio-political contestation for the Syrian state power had emerged as follows. The regime's original two-fold coalition was reduced, in its populist side, to regions dominated by religious minorities, some pockets of support in rural Sunni Arab regions and its class of civil servants, while, from its business side, it managed to retain the support of the two metropolises, Damascus and Aleppo. The regime also managed to neutralise the country's Kurdish population, from one side, and repress dissent in several mid-sized cities (Hama, Latakia and Baniyas), from another. On the other side, a nascent opposition coalition was being formed covering most of the Sunni Arab rural areas, the outskirts of Damascus and some mid-sized cities (Homs and Deir ez-Zour) (Sayyed Rassass, M. (2011, October). This process took place in parallel to gradual gathering of exiled politicians and businessmen and the interlinking between the two sides of anti-regime activities.

5.2.2 The impact of the shift in the sanction regime on the strategies for state contestation

5.2.2.1 The impact on regime strategy and the development of the counter-sanctions strategy

The shift in the sanctions regime threatened the foundation of the country's domestic system of political economy at the time the government was facing increases in military expenses and

¹⁸ The most prominent example of the ousted dependent business elite is the Sanqar family whose Mercedes car dealership were taken by Rami Makhoulf who played an important role in funding the opposition conferences in Turkey (Ali, 2011)

pursuing a rebalancing of its two-fold strategy towards the populist classes. Nevertheless, the regime showed no willingness for adding further measures to the previously announced reforms. The only concession was related to its reluctant acceptance of regional and international diplomatic initiatives beginning with the Arab League initiatives and followed by joint Arab League-UN initiatives (Küçükkeleş, 2012, p. 8; “Sanctions raise the,” 2011; “Syrian president remains defiant,” 2011).

In response to the shift in the sanctions regime, a series of measures were undertaken amounting to a counter sanctions strategy. The outcome affected its ability to rebalance as well as maintain its two-fold strategy. This counter sanctions strategy can be summarised as follows:

- Re-direct oil exports, and re-orient economic relations in general, to non-EU countries in what was referred to as the ‘Looking East’ strategy which focused on Asian countries such as India and China as well as political allies of Russia and Iran (in response to the oil import ban).
- Resume oil production after the pull out of the western international partner (in response to sanctions on state-owned oil companies and joint ventures).
- Preserve the country’s foreign exchange reserves from freezes (in response to the asset freezes on public companies and regime cronies).
- Ensure the procurement of key imports for the functioning of the economy (in response to export restrictions and transaction-related sanctions)

5.2.2.2 Opposition/ Protest Movement Strategy:

The shift in sanctions regime was associated with a general shift in the senders’ policies towards the Syrian conflict with Western leaders’ joint call for Assad to step aside, the Arab League’s political transition initiative and the Turkish-sponsored formation of the Syrian National Coalition (SNC) and had significant repercussions on the protest movement and the political opposition leading to the crystallisation of the opposition coalition and its institutional structure, the crystallisation of its international affiliation with the Western/Turkish/Gulf axis (the sanctioning coalition) and its strategic shift towards militarising the Syrian conflict. The protest movement welcomed this escalation but considered it insufficient requesting a Libyan-style military intervention (“Suhair atassi: Fee,” 2011; “Suriya... tazahurat ‘arema,” 2011). Meanwhile, the formation of the SNC created a divide within the traditional political opposition, between the ‘external’ SNC and the ‘internal’ NCB, with difference over international alliances and the use of military means to overthrow the regime. Nevertheless, the protest movement was quick to endorse the SNC, merge its institutional bodies within the newly formed council and sideline the NCB (Arslanian, 2018, p. 295). Sporadic forms of armed activity became more systematic and increased in frequency and geographic coverage benefiting from Gulf funding, Turkish logistic support and the expectations of an imminent Western aerial support as a replication the Libyan model.

5.2.2.3 The response from populist classes

The shift in the sanctions regime increased the perception of regime weakness, and coupled with the shift towards a militarised strategy, increased the number of military defectors, mainly from within the lower ranks of the military establishment, who joined the armed opposition factions (Peker & Abu-Nasr, 2012). Furthermore, the internationalisation of the Syrian conflict, reflected by the flow of Gulf money and Turkish logistic support, rendered Syria's northern border areas highly susceptible to militarisation and, within this context, Aleppo's northern rural regions became largely militarised and beyond state control (Holliday, 2012b, p. 16). Therefore, the main impact of the shift in the sanctions regime is on Syria's populist classes is related to the further weakening of the regime coalition through the shift of some of its Aleppan segments and military affiliates towards the opposition.

5.2.2.4 The response from the business class

Beginning with the blacklisted businessmen, their response was similarly divided based on their political positionality. Those at the top of the hierarchy, such as Makhlof and Hamsho, increased their support to the regime following their blacklisting (Abboud, 2013, p. 4). Other blacklisted members of the dependent business elite (Kuzbari, Anbouba and Greiouati) dissociated themselves from the regime appealing their cases at the competent courts and eventually leaving the country (Abdulaziz, 2018; Abdulaziz, 2019; Hattem, 2013; Marinas et al., 2012). Overall, their business position was weakened as they were forced to resign from the boards of holding companies and private banks while those involved in international trade had their operations complicated and were forced to rely on middlemen ("Ihab Makhlof Resigns," 2011; Kayali, 2018; "New board, sanctions," 2011). Several blacklisted businessmen appealed their case to the EU courts and most their cases were still pending by the end of 2012 (Marinas et al., 2012).

As a stratum, the 'dependent' business elite feared the possibility of being targeted by economic sanctions and therefore distanced themselves from the Syrian regime (Abboud, 2013, p. 5). Some members of this elite even reached out to western embassies to convey their concerns (Ali, 2011). However, this dissociation did not translate itself into switching support to the opposition as Abboud (2013) stresses the absence of "sufficient incentives to rupture relations with the regime" given that the opposition was not viewed as a "capable alternative" (p. 5). At best, some businessmen "provided covert financial support to the political activities of both sides" (p. 5). On the other hand, the business class, through their representative institutions such as the commerce and industry chambers, managed to defend their economic interests in the face of government's counter strategy. As such, the government's attempt to reverse several liberalisation measures were met by stifling opposition from the business community forcing the government to repeal a highly protective import regime, lower interest rates and reschedule debt payments ("Central bank lowers," 2012; "Decision reverse import ban confirms," 2011; "Manufacturers lobby government," 2012). However, with the escalation of military confrontation, especially in Aleppo, the business community underwent a process of divestment resettling in regional countries (Turkey, Egypt and Jordan etc...) and setting up new

investments there. In between divestment, dissociations and the weakening of blacklisted businessmen, the erosion of the Syrian business class contributed to the elevation of less connected businessmen in the business hierarchy to fill in their places (Abboud, 2013, p.6).

5.3 International Factors

5.3.1 Senders' implementation of economic sanctions

5.3.1.1 Western sanctions competency, monitoring and enforcement

The competency, monitoring and the enforcement of the sanctions regime varied according to the the different types of economic sanctions imposed on Syria. The competency of the Swiss, EU and UK authorities appeared weakest in tracing, and hence freezing, the financial assets of the Syrian government and its core elite. On the other hand, the implementation of the sanctions regime was effective in terminating the West's economic engagement in the Syria oil and gas sector in terms of its role in production, trade and related services. In some cases, the violation of EU countries of the sanctions regime was detected by the Department of US Treasury rather than the competent authorities in EU member countries. Moreover, European companies displayed a behaviour of over-compliance with the sanctions regime as most of them refrained from any economic engagement related to Syria even if did not breach the sanctions regime.

Regarding **asset freezes**, the Syrian regime's experience with off-shore financing and the resort to tax havens and circumvention of SALSRA sanctions rendered the task of identifying assets belonging to the Syrian government and its top elite extremely difficult. While official accounts related to the Syrian government and its related financial and public institutions were easier to trace and freeze, the problem was related to identifying the Syrian government's unofficial assets and that of the regime cronies. The problem of identifying those assets posed a problem to both the EU and Swiss authorities. The EU even reached out to Russia and the Gulf countries in order to coordinate in this matter (Marinas et al., 2012). Thus, by the end of the 2012, it was estimated that Switzerland and the UK had frozen the equivalent of 100 million and 160 million USD respectively, a meagre amount compared with the overall estimated public and private assets (Marinas et al., 2012).

The **operation of the Western oil companies** was arranged through entering joint ventures with oil-related Syrian SOEs through "Production Sharing Agreements". By the time of the imposition of economic sanctions, US companies had ceased to operate in Syria while several EU member affiliated companies (Royal Dutch Shell, Total and Gulfsands Petroleum) and Canadian companies (Petro-Canada/Suncor) were still operating along with companies from other nationalities (the Chinese CNPC and the Indian ONGC). All of these companies suspended their operations in December 2011 and pulled their staff out from Syria following the blacklisting of their Syrian partner, GPC, and the joint venture 'Al Furat Petroleum Company' in which Royal

Dutch Shell was a partner¹⁹. The suspension of PSA was arranged as a “force majeure” notice to the Syrian side in accordance to the terms of the agreement (Blas, 2011; Kavanagh, 2011).

Although the EU, ‘for humanitarian reasons’, did not impose **export restrictions on petroleum products** directly it did eventually impose sanctions on the Syrian public entity ‘Mahrukat’ responsible for Syria’s imports of petroleum products in March 2012. Therefore, up till March 2012, European companies were not legally prohibited to exports petroleum products to Syria while, after March 2012, they were hypothetically still allowed to export petroleum products provided that the transaction does not deal with ‘Mahrukat’ or any other sanctioned individual or entity. Within this context, several European companies ceased to deliver petroleum products to Syria at the onset of imposing sanctions on the oil sector while a few others continued to be involved, up till March 2012, when Mahrukat was blacklisted. This included the Greek company ‘Naftomar’ which was responsible for exporting LPG gas to Syria and the Monaco-based shipping company, Galaxy Energy Group, which was involved in Russian diesel and gasoil shipments to Syria (Donati & Farge, 2012; Donati & Payne, 2012). However, even after blacklisting Mahrukat, the Italian shipping firm, Mediterana di Navigazione SpA., provided shipping services to Russian gasoil deliveries, and in coordination with the Italian authorities, as the shipments were not considered to be violating the sanctions regime given that the deliveries were made to unnamed private entities rather than with Mahrukat (Donati, 2012 December; Moizo, 2013). However, the more systematic violation of the sanctions regime was related to the penetration of the Iranian sanctions circumvention network of several EU member countries as Iranian state-owned ships were registered in Malta and Cyprus, and played role in delivering oil shipments to Syria. Within this context, the US Department of Treasury assumed the primary functions of monitoring and enforcement heavily pressuring Maltese and Cypriote authorities to de-register Iranian-affiliated ships (Donati & Payne, 2012; Flags of Convenience, 2012). As for the provision of insurance services to petroleum products’ shipments to Syria, the evidence demonstrates a lesser level of compliance to the sanctions regime with the involvement of UK and Norwegian companies in the process (Freeman, 2012; Human Rights First (HRF), 2013, p. 9, 16).

From their side, European companies and financial institutions displayed the behaviour of ‘**over-compliance**’ with the sanctions regime. This implied a risk averse behaviour aimed at avoiding potential lawsuits related to violating the sanctions regime through refusing to engage in any commercial engagement related to Syria even it is not subject to the sanctions regime. This behaviour entailed refusing to open bank accounts to Syrian citizens as well as avoiding the

¹⁹ Footnote: Prior to the black listings of December 2011, Western companies were reluctant to pull out of the Syrian market and tried to navigate their way through the sanctions regime (Klooster, 2011). Gulf Sands, for example, resorted to suspending shares and dividend payments to the blacklisted shareholder Rami Makhoul while continuing its operations in Syria (Mason, 2011).

involvement in trading and financing Syria's food and medicine imports (French, 2013; Friberg Lyme, 2012, p. 61; Suriya..al-'uqubat tu'ammeq, 2012).

The final element of the western sanctions' implementation is related to the US' initial steps towards secondary sanctions which would clearly materialise in latter stages. Throughout this period, the US transcended its jurisdiction pressuring the Maltese and Cypriote authorities to de-register Iranian-affiliated ships as discussed previously. The pressure on countries flagging Iranian ships continued after their de-registration in Malta and Cyprus and evidence shows that a similar process was applied to Sierra Leon (HRF, 2013, p. 12).

5.3.1.2 Regional sanctions enforcement

Following the Arab League's announcement of imposing economic sanctions on Syria, its border-sharing countries (Iraq, Lebanon & Jordan) announced their reservations towards their implementation in light of their economic inter-dependencies and concerns over the country's descent into instability (El Gamal & Carvalho, 2012). Whereas the establishment of the monitoring and enforcement system for the Arab League sanctions was announced as an article within the text of the sanctions declaration, - this system was to be elaborated by a technical committee, headed by Qatar, with the task of clarifying the essential goods to be exempted from prohibition, the special conditions that apply for border-sharing countries (Lebanon, Iraq and Jordan) and the elaborating a list of blacklisted top-level regime officials – nevertheless, apart for the blacklisting top-level regime officials and the implementation of the air flight ban, there is no evidence that such a monitoring and enforcement system was ever established ("Sanctions raise the," 2011; "Turkey imposes economic," 2011). There is no reference for its establishment during the subsequent Arab League summit and the Arab League provided no official reply to human rights organisations' enquiries regarding its formation and, as such, sanctions implementation was left to the discretion of its individual members (Human Rights Watch, 2012)²⁰. Among the Arab banks that contributed to the establishment of Syrian private banks, only the French-Saudi Bank announced its pull-out from its Syrian joint venture BEMO. Qatari-funded projects announced a halt in their activities, however, the decision was related more to the escalation of military violence than to the implementation of sanctions (Oweis, 2011). To conclude, the Arab League sanctions regime was never realised. On the contrary, the economic interdependencies with Syria set the groundwork for Arab countries to be involved in significant sanctions busting behaviour as will be discussed in the following section.

While there is no available evidence to verify the measures undertaken by the Turkish authorities to enforce its sanctions, the deterioration of the security situation in the border area, with Turkey becoming a platform for the armed-opposition's operations, ensured the plunge in cross border trade between the two countries (Arso & Arango, 2012; "Trade with Turkey," 2012).

²⁰ The only known investigation on top-level officials' assets was carried out once by the UAE's central bank (El Gamal & Carvalho, 2012).

5.3.2 Third countries' behaviour

Third countries' response to economic sanctions can be categorised into political allies, neutral countries and regional Arab countries where the combination of economic and political factors allowed for significant contribution to sanctions busting.

5.3.2.1 Third countries with political motives towards undermining the sanctions episode

In discussing countries that possess clear political motivations towards undermining Syria's sanctions episode, Russia and Iran represent the two main countries with such motivation²¹. Syria's close relations with Russia dates back to the Soviet period where the two countries Cold War allies and Soviet assistance played a major role in Syria's military build-up (Karsh, 1988). After the collapse of the Soviet Union, close relations were revived in 2005, following the Hariri affair, as Russia scrapped off Syria's Soviet debt and agreed on resuming arms sells (Katz, 2006, p. 55-56). Following the Syrian uprising, Russia sought to prevent the replication of a Libyan-style Western-led regime change which threatened to undermine its "regional standing" with the loss of its sole remaining regional ally, after the fall of Gadhafi, and its military presence on the Mediterranean Sea, its naval base in the Syrian city of Tartous (Phillips, 2016, p. 96; Hokayem, 2013, p. 172-4). Russia's support to the Syrian regime was manifested through the continuation of weapon sales and through international diplomacy especially through its vetoes over UNSC resolutions aiming at universalising the Syrian sanctions regime (Phillips, 2016, p. 98; Hokayem, 2013, p. 176).

Syria's alliance with Iran dates back to the early days of the Iranian revolution and the subsequent Iran-Iraq war (Goodarzi, 2006). This relationship evolved during the Lebanese Civil War (1975 – 1990) through their mutual reliance on the Lebanese Shiite militia, Hezbollah, to undermine their local, regional and international rivals and endured afterwards with the formation of the 'resistance axis' – which comprised, in addition to the two countries, the Lebanese Hezbollah and the Palestinian Hamas. This 'resistance axis' played an important role in undermining Syria's isolation after the Hariri affair²². Therefore, the potential fall of the Syrian regime threatened the shattering of this axis as Iran would lose its only state ally in the region and its linkage to the axis's non-state actors²³. With the uprising, Iranian military support to Syria entailed the provision of surveillance and communication monitoring techniques, the transfer of weapons and ammunition, on-ground military advising, guerrilla warfare training and funding (Hokayem, 2013, p. 125).

²¹ Venezuela represented another country which was politically aligned with the Syrian regime and played a role in sanctions busting through barter deals in different petroleum products as will be discussed later on.

²² Describe their role of the resistance axis – the Hariri affair should be somewhere in Ch.4

²³ Given Syria's role in "facilitat[ing] relations with rejectionist Palestinian factions" and "provid[ing] a valuable logistic route into Lebanon and strategic depth to Hezbollah" (Hokayem, 2013, p. 125).

Syria's political amiability with the both countries was contrasted by its weak economic relations with only Syria's imports from Russia being of significant importance (Statistical Abstract, 2011; "Trade agreement with," 2011)²⁴. Thus, the poor economic relations and the absence of private commercial interests undermined the Syrian economy's reorientation towards its political allies as aspired by the Syrian side. Within this context, Syria's interest in joining the Eurasian Custom Union was never materialised while the FTA agreed upon between Syria and Iran was never activated ("Syria plans to," 2011; "Syria targets exports," 2012; "Syria's Assad regime," 2012; "Trade agreement with," 2011). Therefore, sanctions busting was confined to the state-dominated oil sector and, in the case of Russia, extended to the state-dominated financial sector. Iran's sanctions busting activities included barter trade in petroleum products as well as providing access to its own sanctions busting network in order to facilitate Syria's oil trade as will be discussed in more detail (HRF, 2013, p. 12; Donati, 2012 March; "Iran buys crude," 2011). On the other hand, Russia's sanctions busting efforts comprised of petroleum products' shipment, mainly diesel fuel and gas oil, as well as printing Syrian banknotes and facilitating the Syrian government's international financial transactions through opening bank accounts and assisting in establishing off-shore companies (HRF, 2013, p. 8-10).

To conclude, Russian and Iranian sanctions busting can be explained through the interaction of its government's state interests, in undermining the sanctions regime, with its commercial activities' disinterest in developing commercial ties with Syria and thus restricting sanctions busting to the state-controlled oil and financial sectors.

5.3.2.2 Politically non-aligned third countries

The response to the sanctions regime from other countries with less nuanced political positions from the Syrian crisis ranged between passive support and modest levels of sanctions busting. The most prominent example is related to India; while India's position from the Syrian uprising was in the line with the other BRICS countries in refusing external intervention in Syrian affairs, its stance slightly changed by early 2012 as it voted in favour of the Arab League proposal at the UNSC which called for Assad to step aside ("India refuses government," 2012; MacFarquhar, 2011). On the commercial level, Hindustan Petroleum (HPCL), a company in charge of operating refineries in India, developed an interest in importing Syrian crude oil weighing payment, shipping and insurance options in coordination with state agencies operating in the oil sector ("Basu & Verma," 2011; "HPCL in talks," 2011). Nevertheless, the request for state guarantees in light of the failure to find re-insurers for the potential shipment, a practice pursued by India in its oil imports from Iran, was met by a strict refusal from the Indian government ("India refuses government," 2012). If anything, the Indian case represents a case of passive compliance where the unwillingness of the government to undermine sanctions hindered the commercial interests of the country's companies. Another case of passive support to the sanctions regime can be

²⁴ Syria's imports from Russia amounted to (--) of Syria's imports and consisting of petroleum products and metals such as iron and steel ("Syria plans to," 2011; Statistical Abstract, 2011).

seen in the case of the Malaysian state-owned oil company 'Petronas' which refused to participate in a diesel shipment once it was aware that Syria was its final destination (HRF, 2013, p. 18). On the other hand, these cases of passive support are contrasted by the cases of Angola and South Africa who participated in diesel deliveries with their companies' executives explicitly arguing "that they did not feel obligated to abide by them" (HRF, 2013, p. 17).

5.3.2.3 The role of regional countries in sanctions busting

As mentioned, the Arab League did not develop and enforce its sanctions regime and its implementation was restricted to imposing a flight ban and drafting the officials' blacklist. Given the economic interdependencies between Syria and Arab countries, several countries emerged as significant sanctions busters, most prominently, Lebanon, Iraq and the UAE while other Arab countries, such as Jordan and Bahrain, tolerated, or failed to detect, Syria's state and core elite's financial deposits in their banking system.

These countries differed in terms of their official political stance from the Syrian crisis. Lebanon officially a neutral policy, termed as 'dissociation', which implied refraining from taking sides in the conflict and refusing to endorse any criticism to the Syrian government in international conventions (Hokayem, 2013, p. 133 -134). The 'dissociation' policy reflected Lebanon's vulnerability to the Syrian crisis, in terms of its potential spillover effects, in light of the polarised positions within Lebanese domestic politics and society. Whereas Iraq tilted towards the Syrian regime, following an initial "policy of uneasy neutrality", following the increase in the sectarian Sunni undertones of the Syrian uprising (Hokayem, 2013, p. 133). The UAE, on the other hand, was an active supporter to the Syrian opposition but its role was minor in comparison with the two major Gulf countries, Saudi Arabia and Qatar (Hokayem, 2014, p. 39; Hokayem, 2013, p. 122).

In light of the inter-woven economic relations between the two countries, especially in relation to processing Syria's international economic relations, Lebanon was eligible to transform into a hub for sanctions busting and, consequently, was subject to international pressure to abort such potential. In complying with international pressure, it is important to distinguish between the banking and commercial sectors. The Lebanese Central Bank, along with the Lebanese banking sector, were keen on complying with the sanctions regime, due to fears of being cut off from the international financial market, while, on the other hand, trading firms preferred to pursue their business interests with Syria at the expense of being cut out from international finance. As such, Lebanon became a hub for facilitating Syria's imports while not reaching its potential in attracting Syrian financial deposits with other destinations such as Dubai and Russia deemed safer (Evans, 2012; "Syria buys grain," 2012). On the other hand, Iraq's sanctions busting involved the sale of petroleum products, facilitating Syria's purchases of US dollars as well as acting as a transit corridor between Syria and Iran, mainly for arms deliveries despite US pressure ("Iraqi dinar casualty," 2012; Warrick, 2011). The UAE's position as a commercial centre, and as a sanctions busting hub, resulted in having a fraction of Syria's import arrangements (booking, shipment arrangement, financial transactions etc...) take place in Dubai

in addition to hosting some of the Syrian state and its core elite's financial deposits (Evans, 2012; "Syria buys grain," 2012).

To conclude, the failure to implement the Arab League sanctions and the existing economic relations with Syria allowed some Arab countries to act as hubs for sanctions busting. The political interests of their respective governments and their compliance to international pressure shaped the nature of sanctions busting. The Iraqi government's supportive stance reinforced the country's role in sanctions busting while Lebanese neutral position, coupled with its financial sector's compliance with international pressure, created a dual position for sanctions busting as transformed into a hub for procuring Syria's imports while partially complying with financial sanctions. On the other hand, the commercial interests of the UAE triumphed its political position which was not as extreme comparing with its fellow Gulf countries in the first place.

5.4 Implementation of Regime Strategies (counter-sanctions strategy & maintaining and modifying the two-fold strategy)

As mentioned, Syria's main strategy following the eruption of the uprising was to reverse some aspects of its second stage PPA process / the liberalisation measures unleashed prior in the years prior to the conflict. This included increasing public salaries and public employment and increasing the subsidy level on gasoil fuel. These measures related to the expenditure side of the public budget. Increasing public expenditure to meet such objectives had to take place at a time when military expenditure was rising, and public revenue was declining with the collapse of businesses while at least maintaining the existing levels of subsidies and social services provision. The EU oil import ban added to the predicament of Syria's public finances by depriving the budget of a key revenue source (although decline substantially in the decade prior to the uprising) of public revenue (estimated as around 20% of total revenue). Furthermore, the subsequent sanctions added to the state's capacity to procure subsidised items and provide social services.

5.4.1 Sanctions Counter Strategy

5.4.1.1 Circumventing the foreign asset freeze

As the sanctions regime targeted the country's foreign exchange reserves through freezing the assets of its state-owned financial institution, other SOEs and the assets of the regime's core elite, a key counter-strategy involved circumventing the freeze on such assets, a strategy facilitated by the regime's previous experience in hiding its assets through the resort to shell companies and offshore accounts. Regarding Syria's official assets deposited in European countries, the scant journalistic evidence indicates that Syrian public financial institutions managed to successfully withdraw most of their assets from European banks prior to their blacklisting. As for assets deposited in Arab banks, the scant journalistic evidence refers to the role middlemen played in switching accounts and transferring assets in Bahraini and Emirati banks as well as switching deposits, in Jordanian banks, from US Dollars to other currencies

while retaining the deposit in the same bank (“Central bank opens,” 2011; al-Markazi yatakhez ijra’at, 2011). The IMF roughly estimated that only 20% of Syria’s official reserves were frozen (Gobat & Kostial, 2016, p. 16). On the other hand, the assets of the regime’s core elite were much more difficult to trace (Marinas et al., 2012).

5.4.1.2 Resuming oil production without the international partner

The GPC continued with oil and gas production after the departure of the foreign partner. Operating the oil fields in the absence of the foreign partner constrained the production process as the GPC was confronted with obstacles related to procuring the necessary production inputs, spare parts, maintenance and finance in addition to issues related to quality control and software applications (Othman, 2015, p. 106). Aside from the technical issues constraining oil production, another impediment on production was related to the decline in export opportunities. Overall, Syria’s oil production dropped more than 60% from its pre-crisis level of 400,000 to 153,000 BPD by late 2012 (EIA, 2013)²⁵.

5.4.1.3 The “Looking East” strategy and finding new markets for Syria’s oil exports

The “Looking East” strategy was a highly publicised strategy that aimed at relying on the emerging Asian economies as substitute to economic relations with the EU (Seeberg, 2014, p.29). In terms of finding new oil export markets, Syria’s ‘Looking East’ strategy eyed “energy-hungry” China and India (“Syrian finance minister,” 2011). Nevertheless, this strategy was met with several obstacles. To begin with, there were technical obstacles related to the heavy nature of Syrian crude oil and the limited capacity for refining such oil outside the western hemisphere in addition to the additional transportation costs to be incurred from transporting Syrian oil to Asia instead of the EU. Within this context, India possessed sufficient refining capacity for processing Syria’s heavy crude oil while China’s capacity was much more limited (Eriksson, 2011). In addition to such technical obstacles, there were political obstacles related to the ‘passive support’ for the sanctions regime from the Indian Government, as previously discussed²⁶. Besides attempting to re-direct its oil exports to India and China, Syria relied on its political allies through arranging barter deals in petroleum products and utilising Iranian’s own sanctions circumvention network and the Russian financial system. Several barter deals were arranged with both Venezuela and Iran in which Syria’s excess production of Naphta and Gasoline were bartered for Iranian gasoil and Venezuelan diesel (HRF, 2013, p. 12, 16). A more comprehensive barter agreement was reached with Russia in the second half of 2012 in which all of Syria’s excess crude oil would be bartered for Russian petroleum products, especially gasoil/diesel (“Russia, Iran step,” 2012). Nevertheless, there is no evidence that such a deal was realised and whether its due to the Syrian government’s gradual loss of control of oil wells or

²⁵ Another issue is related to the legality of the Syrian side operating without the foreign partner and the implications for the contract once sanctions are lifted. In this regard, both sides have practiced constraints. (Elaborate)

²⁶ One shipment attempt to a Chinese company was reported although it could not be verified whether the delivery was completed or not (Donati, 2012 March)

whether due to Russian commercial and political calculation. Besides barter deals with political allies, Syria relied on Iranian assistance to facilitate some of its imports through its utilisation of Iranian oil smuggling network. This included procurement of Maltese flagged vessels for oil shipment and purchasing Syrian oil itself and re-selling it (Donati, 2012 March; “Iran buys crude,” 2011). However, the overall smuggled oil exports do not appear to be high. EIA reports Syria’s total oil exports in 2012 to amount to only four shipments while SCPR calculated Syria’s oil exports, for the year 2012, to represent around 10% of its previous year’s value (EIA, 2013; Nasser et al., 2013, p. 44). Nevertheless, beyond the issue of oil, the attempt to re-orient the Syrian economy eastwards did not meet much success as even its political allies were not enthusiastic about negotiating economic agreements as discussed earlier.

5.4.1.4 Managing imports

The sanctions regime affects Syria’s capacity to import in several ways. To begin with, the import oil ban, and the asset freezes on public economic and financial institutions, reduces the available foreign exchange for imports. Secondly, export bans on luxury goods, dual-use goods and goods with US component exceeding 10%, affects Syria ability to import fertilizers, pharmaceuticals and computers etc... Another aspect is related to blacklisted entities and individuals responsible for specific imports. Blacklisting the SOE ‘Mahrukat’ affected Syria’s capacity to import petroleum products even though the EU did not impose an oil export ban while blacklisting the businessman, Tariff al-Akhras for example, affected Syria’s ability to import sugar given his pivotal role in the sugar import business. Finally, financial sanctions and sanctions on insurance and re-insurance services creates payments and shipping obstacles that affect almost all imports. Syria’s counter-sanctions strategy of import management can be divided into strategies related to adjusting its level of imports, to the available foreign exchange level, and those related to facilitating their procurement.

In an attempt to restrict imports, following the EU oil import ban, the Syrian government attempted to radically shift its trade regime by banning all imports whose tariff rates exceeding 5% implying a ban on all manufacturing consumables. However, the Syrian government was quick to revoke the ban as it caused an uproar within the business community (“Import restrictions signal,” 2011; “Decision reverse import ban confirms,” 2011). Alternatively, it resorted to gradual increases in tariff rates, beginning with raising tariffs on car imports and followed by a more comprehensive list on manufacturing consumables (“Government raises import,” 2011; “Syria ends trade,” 2012) On the other hand, the conflict itself had a few positive repercussions as the associated lower economic activity led to a reduction in import demand and, in turn, mitigated the drain on the country’s foreign exchange reserves.

On other hand, several countermeasures were pursued to facilitate import procurement. These measures included trade triangulation, the reliance on small shipments and re-orienting trade from EU countries towards Eastern European and Asian markets. Trade triangulation refers to the process of moving goods “through a series of alternate countries instead of directly to the sanctioned country” (Newcomb, 2002, p. 51). In light of the historical economic inter-

dependencies, Lebanon emerged as the main intermediary between Syria and the EU. Initially, Syrian businessmen relied on Lebanese individuals for intermediation, however, the system soon developed through the establishment of specialised off-shore companies representing partnerships between Lebanese and Syrian businessmen (Wehbe, 2012). Other regional countries, such as the UAE and Iraq, were involved in the triangulation trade as well. The UAE played an important role in facilitating the import of US originated products (or with above 10% US component). In the case of Syria's purchases of Dell computers, a Syrian private business company, commissioned by the Syrian public sector, managed to procure Dell computers from the UAE through trade triangulating with Saudi Arabia (Nixon, 2013). Syria also relied on small shipments given the difficulties in re-insuring large cargoes, a service dominated by Western companies, and the reluctance of large companies and commercial banks from dealing with Syria and, thus, forcing Syria to rely on small traders and clandestine middlemen (Suriya.. al-'uqubat, 2012).

As for Syria's management of its petroleum products' imports, it is important to recall Syria's original excess production of Naphta and Gasoline in contrast to its limited refining capacity for diesel, gasoil and LPG²⁷ and its reliance on EU, Russian and Turkish imports. This initial deficiency was exacerbated by the decline in Syria's oil production and refining capacity and the increase in diesel consumption for military purposes. The EU sanctions regime did not impose a specific export ban on oil and petroleum products, citing humanitarian purposes for such an exemption, but blacklisted the public company 'Mahrukat' responsible for Syria's petroleum products' imports in March 2012 (Donati & Farge, 2012). Thus, prior to March 2012, Syria's need of LPG was supplied by the Greek company, Naftomar, while a huge share of Syria's gasoil need was met through Russian shipments through Monaco-based shipping agency (Donati & Payne, 2012; HRF, 2013, p. 9). Furthermore, a proportion of its diesel and gasoil needs were met through barter trade with its political allies, Venezuela (Naphta) and Iran (Gasoline). However, the blacklisting of 'Mahrukat' led to the cessation of Syria's LPG imports from Naftomar and diesel and gasoil shipments from Russia as the Monaco-based company ceased its involvement in the shipment (HRF, 2013, p. 9). In aftermath, Syria faced more difficulty in importing petroleum products. While barter trade continued with Iran and Venezuela, Syria arranged diesel shipments from Angola and resorted to micro deals with private individuals in Lebanon and Georgia. However, by late 2012, Syria managed to renew Russian diesel shipments, and even through EU-based shipping companies, as discussed previously, relying on private middlemen who, in turn, re-directed the shipments to Mahrukat (Donati, 2012 December; Moizo, 2013).

²⁷ Furthermore, it is important to recall that these refined products were used for heating, transportation and groundwater irrigation pumping and thus a shortage in such items affects both households and the agriculture sector and therefore adversely affecting its strategy of meeting its populist commitments

5.4.1.5 Circumventing financial and other transaction-related sanctions

The ability of Syria's public financial institutions, and more specifically, the Central Bank of Syria and the Commercial Bank of Syria, to conduct international financial transactions depended on several arrangements including relying on the Russian financial system, Syrian expatriates and local Islamic banks. The processing of the Syrian public sector's foreign trade, and especially its oil trade was arranged with CBS opening accounts several prominent Russian Banks, in Rubles and Euros, who, in turn, arranged the financial transactions through their correspondence accounts with other international banks. This process was complemented by establishing offshore companies in Russia and Malaysia in light of the increasing scrutiny of Russian banks' financial relations with the CBS ("Central Bank to consider," 2012; HRF, 2013, p. 9). Another payment mechanism was arranged through Syrian expatriates' accounts in regional banks; as even though the majority of expatriate businessmen were supportive of the opposition, a minority of them supported the Syrian regime and assisted government financial transactions through their own accounts (Kattan, 2014). The Commercial Bank of Syria relied, to a lesser extent, on local private Islamic banks to process its financial transactions through their corresponding banks in the region (Kayali, 2018). It was within this context that the SIIB was subject to economic sanctions. Besides the question of arranging financial transactions, there was the question of acquiring the currency itself, both the USD and SYP in light on the Dollar ban and bank note printing ban. Within this context, Syria's purchase of USD was arranged in neighbouring Iraq as its Central Bank's auctions were purchased by Iraqi middlemen and afterwards transferred to Syria whereas the ban on banknote printing, which formerly took place in Austria, was circumvented through printing money at Russian companies and transporting the bank notes through air to Syria (Kami, 2012; Linzer et al, 2013). A substantial proportion of Syria's oil trade relied on Iran's sanctions circumvention network which initially relied on Maltese and Cypriot-flagged ships. Following US pressure on these two countries, shipping registration shifted to African, Central and South American countries. Securing shipping insurance coverage was arranged in tax havens such as Liechtenstein and Bermuda (Freeman, 2012; HRF, 2013, p. 5-6).

Finally, it is important to recall from the previous section, that, within the context of trade triangulation, the middlemen in the intermediary country were responsible for facilitating the transaction, including the payment and insurance arrangements. Avoiding Western-dominated re-insurance services was carried through relying on smaller cargoes that did not require such services and while private middlemen facilitated the import tasks of blacklisted public entities.

To conclude, there were mixed results in achieving these measures. From one side, the Syrian authorities manage to avoid the majority of its foreign exchange reserves from being frozen while, from another side, it failed to find new markets for its oil exports. In between, Syria's ability to continue to import key products essential to the functioning of the economy was constrained – creating an unmet supply and leading to shortages and price hikes.

5.4.2 Maintaining & adjusting the regime's two-fold strategy

While strategies towards the business class such concessions to collective pressure replacing dissociates has been covered throughout the chapter, this section will mainly concentrate on the populist aspect of the two-fold strategy.

5.4.2.1 Financing populist commitments

No major policy changes were pursued in order to compensate the decline in oil-related revenue with other sources of revenue. The fiscal authorities neither resorted to altering the taxation system, whether through imposing higher income or consumption taxes, nor attempted to improve the efficiency (the tax collection rate) of the existing system. Between 2010 and 2012, Syria's three main public revenue components (oil-related proceeds, non-oil tax revenue and non-oil non-tax revenue) witnessed significant decreases leading to an overall decline in public revenue from around 23% to 12% of GDP with the contribution of taxes (mainly private sector) exceeding the contribution of the public sources (oil & SOEs) (Nassar et al., 2013, p. 42). Several factors prevented a steeper decline including the increase in weight of taxes from international trade due to the increase in tariff rates and imports' demand inelasticity as well as the increase in telecommunication revenue in light of the increase in "international traffic as concerned relatives and friends called to check on people they knew in Syria" (Peel, 2013). Alternatively, the government benefited from its low public debt level and increased its borrowing from public banks to fund its public expenditure (Nasser et al., 2013, p. 43). It also curtailed its investment expenditure in order to finance its current expenditure items (Nasser et al., 2013; p. 43; Yazigi, 2014, p. 3). Furthermore, the government resorted to informal off-budget revenue collection such as the 'voluntary' contribution of the loyal businessmen, the resort to quasi-government assets (the regime's inner circle wealth) (Yazigi, 2014, p. 3; Peel 2013). However, given the informal and clandestine nature of such activities, it is difficult to quantify the contribution of such activity. Finally, the country's military expenditure was gradually outsourced to Iran, from one side, with its increasing role in funding local and regional paramilitaries in addition to its role in weapons and ammunition provision, and self-financing measures were developed, from another, the Syrian government tolerated the Syrian military and paramilitaries' systematic resort to looting and booty trade (Szybala, 2014, p. 15; Yazigi, 2014, p. 5).

5.4.2.2 Achieving price stability (Foreign exchange and monetary policy)

Syria's fixed exchange rate policy (47 USD/SYP prior to the conflict) represented the "main anchor for price stability" (Nasser et al., 2013, p. 45) and, more specifically, the overvaluation of its value represented a means for subsidising consumption as previously discussed. As such, defending the exchange rate represented a key policy in its co-optation of its populist classes.

The pressure on the Syrian Pound started with the eruption of the uprising with the rush on the banks to withdraw deposits, the evaporation of revenue from Tourism and the general decline

in economic activity (“Continued protests end,” 2011; Oweis, 2011). The gradual easing of restrictions in the financial market prior to the conflict were reversed with the increase in interest rates and the curtailing of foreign exchange purchases for non-commercial purposes (“Central Bank announces,” 2011; “Syria moves to curb,” 2011). Furthermore, intervention in the foreign exchange market took an unofficial form as regime cronies, headed by Rami Makhoul, formed the Syrian Economic Army tasked with purchasing Syrian Pounds in order to defend the currency (“Rami Makhoul Yaquodu,” 2011). The pressure on the Pound intensified by late 2011, following the shift in the sanctions regime and the failure to impose a strict import regime and to redirect oil exports to Asian markets, rendering the depreciation of the Syrian pound inevitable. In response, a new foreign exchange rate policy was elaborated which can be best described as ‘managed devaluation’. The policy entailed the CBS’s continuous intervention in the market through resorting to its foreign exchange reserves and selling them in the market with the aim of ensuring a continuous alignment of the official exchange rate with the market rate while gradually restricting official rate transactions towards funding the import of key products and, thus, re-introducing a milder version of its multiple exchange rates system which was eliminated in the years prior to the conflict (“Central bank holds auction,” 2011; “Central bank sells,” 2011; “Pound stabilises as central bank,” 2011; “Central bank issues,” 2012; “Syria sells forex,” 2012). The market foreign exchange rate fluctuated with the political and military developments and the intensity of CBS intervention, nevertheless, the monetary authorities managed to stabilise the market rate at around 70 SYP/USD between March and September 2012 (“Syrian pound slips,” 2012; “Syrian currency regains,” 2012; “Syrian pound stabilises,” 2012; “US dollar rises,” 2012). However afterwards – with the transformation of the Syrian conflict into a full-scale military confrontation, the pressure on the Pound intensified with its market rate crossing 100 SYP/USD by the end of the year (“Dollar crosses 100,” 2012; “Dollar rises to,” 2012).

Given that the Syria’s foreign exchange rate policy was primarily related to targeting inflation, then the ‘managed devaluation’ policy domestically had its mirror image of a ‘managed inflation’ policy. This policy was complemented by re-introducing administrative pricing controls, applying the lower official foreign exchange rate for funding key food and medical products and banning the export of key food products to ensure their availability in the market (“Syria imposes export,” 2012; “Price list issued,” 2012). Similar to the foreign exchange rate, the main hike in prices began in December 2011 which the authorities managed to contain between March and September 2012 but failed afterwards in keeping pace (Nasser et al, 2013, p. 47; “Syria’s inflation rate,” 2012; “Annual inflation at,” 2012).

5.4.2.3 Fulfilling populist commitments

The increase in public salaries & employment and the increase in the gasoil subsidy were the two key elements of the regime’s ‘two-fold strategy’ rebalancing attempts. While the increase was maintained throughout this period However, the nominal increase in salaries was undermined by the depreciation of the currency and the increase in public employment was a

one-off process related to the giving temporary employees a permanent status (ICG, 2013b, p.22; Nasser et al., 2013, p. 58). On the other hand, the maintenance of the price of gasoil at 15 SYP per litre was challenged by the increasing difficulties in procuring gas oil after the blacklisting of 'Mahrukat'. This forced the government to reverse its subsidy increase in May 2012, restoring its pre-uprising level of 20 SYP per litre, and further increasing the price, two months later, to 23 SYP per litre ("Government Increases Gas," 2012; "Shortages, deficit push," 2012). There were significant challenges to the maintenance of other commitments. While the government continued to provide subsidised social services including utilities, health and education, the decrease in the country's production and import capacities affected the availability, accessibility and quality of such services. The health sector was affected by the difficulty in procuring pharmaceuticals while the electricity sector suffered from power outages due to shortages in procuring sufficient petroleum products. The sanctions regime affected the country's capacity, especially the public sector's capacity, to import many items of 'essential foodstuff not produced locally' leading to the increase in their prices above that of the inflation and currency depreciation rates (FAO & WFP, 2013, p. 23-24). Syria's agricultural system was affected by the difficulties in importing agriculture production inputs such as diesel, fodder, fertilizers, pesticides, veterinary medicines and vaccines was exacerbated by the decline in the domestic production capacity of such items and transportation difficulties affecting the government's ability to provide production inputs to farmers (FAO & WFP, 2012, p. 9; FAO & WFP, 2013, p. 13). On the other hand, the wheat self-sufficiency policy remained intact with wheat production at around 2.8 million tons, comparing with the three year annual average of 3.5 million tonnes, the centralised purchasing system for wheat maintained (at 80% of total production) and the production/consumption gap met through resorting to the country's strategic wheat reserves and complementary imports (FAO & WFP, 2013, p. 17-18).. This in turn allowed for the continuation of the policy of providing subsidised bread. In this regard, the gap in bread production created by the pull out of private bakeries from the market was filled by public bakeries undertaking the extra-load and the initial signs of a bread crisis that appeared in early 2012 were quickly averted ("Short-term run," 2012, FAO & WFP, 2013, p. 21; "Tawabeer al-sureeyeen min," 2012).

5.5 The Outcome of the First Period of the Sanctions Episode

5.5.1 Pattern of integration in the global economy: The evaporation of foreign revenue sources

The main change in Syria's pattern of integration in the global economy was related to the evaporation of Syria's main sources of foreign revenue. This included revenue from tourism, FDI, oil exports and by the end of 2012 manufacturing exports. Furthermore, there was a shift from investment inflows towards investment outflows associated with the process of divestment and dissociation. From Syria's previous main revenue sources, only remittances endured the sanctions episode and its contribution to the overall 'income and transfer balance' increased with the cessation of oil profits' reparations (Nasser et al., 2013, p. 44). The evaporation of these

various sources of foreign revenue was compensated by the ability of the Syrian government to evade and utilise its well-hidden official and quasi-official foreign exchange reserves which became the main source of foreign exchange for funding its import needs and consequently the size of these reserves declined.

Syria's trade deficit increased as the decline in its exports (77% decrease from its 2010 level) was steeper than the decline in its imports (42% decrease from its 2010 level) and its positive BOP switched into negative (Nasser et al., 2013, p. 44). Syria's remaining exports comprised mainly of manufactured and agricultural exports destined to the Arab world (Statistical Abstract, 2013). Syria's import structure witnessed an increase share of oil and petroleum products and the decline in non-petroleum manufacturing products (Statistical Abstract, 2013). Whereas the increase in imports of petroleum products can be explained by the decrease in Syria's oil production and refining capacity, the decrease in political instability-induced demand slump, the increase in foreign trade restrictions and sanctions-induced difficulties in importing. Syria's reliance on trade triangulation with the EU complicates assessing the impact of sanctions on Syria's imports from the EU and despite the decline in their absolute value and share of EU in Syrian imports remained unchanged at around one-quarter of Syria's overall imports (Statistical Abstract, 2013). A clear trend in can be noted Syria's imports of petroleum products shifting from an original combination of the EU, Russia and Turkey towards a new combination of countries that relied heavily on political allies Russia, Iran, Venezuela and Iraq.

With regards to international financial markets, Syria was increasingly isolated "from international debt markets and payment and settlement systems" (World Bank Group (WBG), 2017, p. 67) and had to rely on intermediaries and offshore accounts to process its international transactions. Within this context, its original reliance on Lebanon, for intermediating its international transactions, intensified as Lebanon became the main intermediary in Syria's trade triangulation. Furthermore, international transaction intermediation extended to other regional countries (Iraq and UAE) and towards political allies (the Russian banking system and Iranian sanctions circumvention network). On the other hand, Syria's original reliance on European firms for insurance services shifted towards tax havens.

To conclude, Syria's original dual integration with the global economy witnessed significant changes. Its oil-based relations with the EU shattered with the cessation of Syria's crude oil exports, EU investments in the Syrian oil sector and the dwindling of EU petroleum products' exports. Syria's integration with the Arab World changed as the country shifted from a recipient towards an exporter of investment, a shift that took place in parallel to the shift in the direction of the movement of people from an inflow of Arab tourists towards an outflow of Syrians seeking refuge. On the other hand, the Syrian economy increased its reliance on Arab countries for intermediating its international transactions and became the final outlet for Syria's remaining agricultural and manufacturing exports. Finally, a third element emerged with regime allies, mainly Russia and Iran, becoming the main source for Syria's imports of oil products and playing an important role in intermediating its international transactions.

5.5.2 Domestic system of the political economy: The precarious maintenance of the PPA system

The Syrian pre-conflict PPA system was precariously maintained in the sense that its two-fold strategy was preserved despite the erosion of the underlying factors that sustained that strategy; foreign revenue, public revenue and agricultural self-sufficiency, from one side, and the alliance with Gulf capital, from another. Syria's resort to its foreign reserves compensated for the evaporation of its foreign revenue sources and allowed for the continuation of procuring imports while the government continued to meet its populist commitments despite the erosion of public revenue, benefiting from the "fiscal window" of its 'low debt' policy, and the gradual erosion of the public sector (Nassar et al., 2013, p. 43). The self-sufficient agricultural system and the centralised wheat purchasing system were also precariously maintained despite the difficulties in importing production inputs and the deterioration of the domestic production of such inputs. The adverse impact of these factors on production costs, irrigation frequency and production output were partially compensated by favourable weather conditions (FAO et al., 2012, p. 9-15; Nasser et al., 2013, p. 36). Thus, the overall decline in agricultural output was at a manageable rate of around 20% of total output affecting the capacity to export, in the first place, rather than the capacity to meet domestic demand (Nasser et al., 2013, p. 36; Qatana, 2018, p. 7). Nevertheless, Syria's populist classes suffered from a genuine decline in living standards resulting from the combination of the agricultural output contraction and the increase in their production costs, the decline of the currency, shortages and price increases in petroleum product and imported foodstuff, the deterioration of the health sector and the decline in employment opportunities with the contraction in economic activity and the closures of private businesses. On the other hand, the underlying factors that constituted the third wave of the Syrian business class reconfiguration (alliance with Gulf and regional capital) was shattered and followed by a wave of dissociation and divestment. Nevertheless, the regime ensured the loyalty of the business class by making concessions in policies, at the expense of economic rationality, replaced the dissociates and divestors by elevating the status of less prominent businesspeople and thus maintaining the stratified structure of the Syrian business class.

5.5.3 The intervening role of the second phase of the sanctions episode on the social contestation for state power

Even though the second phase of the sanctions episode empowered the opposition and weakened the regime on many fronts, the regime's 'cosmetic' political reform process continued as planned. A new constitution was endorsed in a national referendum and followed by parliamentary elections with the participation of newly formed political parties. The new parliament paved the way for the formation of a new cabinet depicted as a 'unity government' between the Ba'th party and a specific reformist opposition 'the loyal opposition' lacking endorsement from the protest movement (Lund, 2012, p. 58). However, both the parliamentary elections and the constitution referendum retained their staged nature and failed to act as a groundwork for the transition towards a multi-party system as even though the constitution

limited the presidency to two terms, and stipulated the nomination of at least two candidates, the balance between the three powers remained unchanged with excessive power concentrated in the hands of the Presidency in contrast to the weak legislative powers of the parliament (Arslanian, 2018, p. 303; Dostal, 2014, p. 50-54).

The only concession the Syrian regime underwent was related to the Arab League/UN diplomatic initiatives (The Arab League initiative, the Annan plan). These initiatives entailed the launching of a political process between the regime and the opposition following the successful application of a cease fire, the withdrawal of the Syrian army from residential areas and the deployment of observers to monitor the process (Hinnebusch & Zartman, 2016, p. 7-8; Küçükkeleş, 2012, p. 10). As such, diplomatic initiatives affected the regime's military strategy which needed to balance between the opposition's military escalation and the constraints of diplomatic initiatives. This balancing act resulted in the development of the military strategy of "selective brutality" in which excessive force was restricted to specific cases of strategic significance (Holliday, 2012a, p. 11-13). On the other hand, the constraints on the use of violence were alleviated with UNSC vetoes by regime patrons. Within this context, the Russian-Chinese second double veto in February 2012 was followed by the military's excessive resort to artillery weaponry, allowing for the re-capturing of opposition strongholds in the urban centres of Idlib and Baba Amr in Homs and paving the way for the gradual takeover of the rest of the opposition-held parts of the city, whereas the subsequent Annan Plan re-constrained the use of military force losing control of vast rural areas (Holliday, 2012b, p.11 -13; "Syria's cry for help," 2012; "Syrian troops 'take control,'" 2012).

From the opposition's side, the period of late 2011/early 2012 witnessed the proliferation of armed groups across the country with several protest movement strongholds, in Homs, Dar'a and the region of Idlib, emerging as "hot-beds of the armed resistance" (Lister, 2016, p. 4). Their military tactics grew in frequency and sophistication and their geographical control extended to provincial centres in Idlib and Homs (Lister, 2016, p. 6). Along the proliferation of these grassroots armed groups, a military headquarter was created in southern Turkey in what was dubbed as the 'Free Syrian Army' (FSA) and set to achieve official links with the political opposition SNC, from one side, and to coordinate the activities of the armed groups, from another (Lister, 2016, p. 8).

Following the regime's March 2012 recapturing of opposition-held urban centres in Idlib and Baba Amr, the armed opposition focused on expanding in rural areas benefiting from the new constraints the Annan Plan imposed on the regime and the recipient of anti-artillery weaponry that impeded regime advancement (Holliday, 2012b, p. 9, 13-14). The expansion of the Syrian opposition was most dramatic in the rural areas connecting Aleppo with the Turkish borders and, by June 2012, a "de facto rebel zone" (Holliday, 2012b, p.11) had already been established stretching from the Turkish borders in the north to Hama countryside in the south and from the M5 highway in the East and bordering the coastal region in the west (Holliday, 2012b, p.11, 15-16). The situation created what Holliday (2012b) describes as a "urban-rural stalemate" (p. 10)

as “the regime held its ground in key urban areas, while the rebels moved freely around the Syrian countryside” (p. 11).

Despite its military expansion, the political organisation of the Syrian opposition was in disarray. The SNC appeared indecisive, retroactive, plagued with internal divisions and rivalries, lacking presence on the ground and, from the international perspective, lacking the adequate representation of Syria’s political and societal spectrum (Lund, 2012, p. 57-58). In these conditions, the protest movement gradually lost interest in the SNC and, instead, lent its support to FSA leaders while international interest in promoting and elevating the legal status of the SNC stalled (Lund, 2012, p. 59-60). Similarly, the armed factions were plagued with problems. The capacity of the FSA’s military headquarters to create a centralised leadership was undermined by the uncoordinated funding carried out by regional adversaries (Saudi Arabia, Qatar and Turkey) to the various armed groups and the resultant rivalry and competition among those groups (Holliday, 2012, p. 29; Lister, 2016, p. 7-8). The failure to centralise military activity also exacerbated the problem of armed group’s thuggish behaviour affecting the FSA brand’s reputation and allowing more disciplined Islamist factions, including the al-Qaeda-affiliated Jabhet al-Nusra to gain popularity and prominence with the armed opposition (Cafarella, 2014, p. 14; Holliday, 2012, p. 29).

Amid the military stalemate, the international stakeholders managed to reach a loose understanding over resolving the Syrian crisis. The understanding, ‘Geneva communique’, entailed the “the creation of a transition government comprising of representatives from both the government and the opposition” while refraining “from mentioning the fate of the president” (Arslanian, 2019, p. 286). Nevertheless, this understanding neither refrained western countries from insisting on Assad’s departure nor did it refrain Russia and China from resorting to their third double veto once the understanding was drafted as a UNSC resolution under Chapter Seven of the UN charter. More importantly, the Syrian armed opposition, backed regional adversaries, escalated militarily through launching the battle of the two metropolises, Damascus and Aleppo, with the country descending into a full-scale military confrontation (Arslanian, 2019, p. 286-287).

Throughout the second phase of the sanction episode, the precarious maintenance of the system prevented a wider populist backlash – which was restricted to military defections among the lower ranks of the opposition constituencies and some segments of the populist classes in Aleppo –, from one side, and kept the business class in check through replacing dissociates with newcomers and making concession to their collective demands, from another. On the other hand, the different weaknesses plaguing the Syrian opposition, SNC dysfunctionality and FSA thuggery to the emergence of Islamic radicalisation mitigated the appeal of the Syrian opposition. Within this context, the further the opposition advanced in the metropolises of Damascus and Aleppo, the further they were met with stifle resistance from the local population (ICG, 2013b, p. 19-22). Therefore, the Syrian regime was able to survive the opposition’s assault and by the fall of 2012 a new military stalemate had arisen with the failure of the opposition to further advance in the metropolises.

5.6 Conclusion: The Interaction of international and domestic factors in the first period of the sanctions episode (2011 -2012)

As discussed in Chapter 2, the interaction of international and target-level factors takes the form of either increasing/mitigating the economic costs of economic sanctions, tarnishing/reinforcing the target's counter strategy or adjusting the economic system with novel political implications. In examining the first period of Syria's sanctions episode, we note that the regime's maintaining and adjusting its two-fold strategy was a half-way success which resulted in the precarious maintenance of its PPA system. This maintenance, in turn, was solidified by other political factors related to the dysfunctional nature of the opposition, the military aspect of the conflict and the sectarian and other ideational divides pervading the country and, thereby, allowing the regime to survive the military advance of the Syrian opposition. This half-way success in maintaining and adjusting its two-fold strategy, in turn, was related to the half-way success of its counter-sanctions strategy which can be divided into three main sub-strategies: re-directing oil exports, circumventing foreign asset freezes and procuring imports. In assessing the success of each sub-strategy, one can argue that the first was a failure, the second was a success and the third was a partial success.

Herewith enters the role of international factors. For the first sub-strategy, the confluence of the strictness in enforcement, the passive compliance from potential Asian buyers and the modest support from political allies tarnished regime's ability to re-direct its oil exports. Whereas in the case of circumventing foreign asset's freeze, the incremental imposition of economic sanctions with weak Western monitoring capacity in this regard, from one side, and the lack of Arab League sanctions enforcement allowed the regime to successfully circumvent this strategy especially given its previous experience in the regard. Moving to the third sub-strategy, the failure to redirect exports and the success in circumventing foreign asset freezes created a situation where foreign reserves became the sole means for financing imports especially with evaporation of other sources of foreign revenue due to political instability. Within this context, the application of transaction-impeding economic sanctions and the over-compliance of western companies and financial institutions, from one side, was countered by sanctions busting from political allies and regional countries, from another, creating a restricted ability to procure imports creating market shortages and price hikes which were exacerbated by the gradual destruction of the country's production base.

Chapter Six: The Second Period of the Sanctions Episode (2013 - 2016)

6.1 Introduction

After addressing the interaction of international and domestic factors in shaping the outcome of the sanctions episode during its early period (2011-2012) in the previous chapter, this chapter will cover the similar interaction for its mid-period (2013 – 2016). There are several factors that make this period distinct in comparison with the former period. The main factor is related to the descent of the country into a full-scale military confrontation and its implications on the country's geographical integrity, demography, economic structure and the nature of political contestation. The Syrian government lost control of vast areas of Syrian territory, mainly to the Syrian opposition, covering large areas of the Syrian countryside. This was manifested especially in the country's north, where an opposition-controlled buffer zone with Turkey was created, and in the country's east along the Euphrates River and the Iraqi border. In urban centres, the regime lost control of nearly half of the city of Aleppo, mainly the city's poorer neighbourhoods, as well as losing control of large areas in the outskirts of the capital city, Damascus. Along with the country's fragmentation, there were changes in the country's demography as the population growth turned negative as many Syrians sought refuge in neighbouring countries along with internally displaced people (IDPs) moving from conflict areas to safe areas. These demographic changes took place amid the mainstreaming of poverty and the decay of the country's education and health systems (Nasser et al., 2013, p.24-28).

The militarisation and the fragmentation of the country implied the destruction of its physical capital and the collapse of its transportation network. More specifically, the loss of Syria's eastern region implied the loss of the government's access to the country's deposit of natural resources (wheat, oil and cotton) while the extension of military confrontation to the country's two metropolises, Damascus and Aleppo, destroyed the country's manufacturing base. With the collapse of Syria's conventional economy, a new 'war economy' emerged concentrating on looting, abduction and smuggling, at the same time, international humanitarian aid poured into the country to avert a humanitarian catastrophe. Finally, two new political blocs (ISIL and PYD) were added to the two main contesters, the regime and the opposition, further complicating the conflicts dynamics.

Other factors making this period distinct are related to the changes in the sanctions regime as well as the change in the behaviour of regime external allies, Russia and Iran, in terms of sanctions busting and military and diplomatic support. Regarding regime allies, both countries intervened directly in the country's military conflict. Russia's played a key role in international diplomacy while Iran's sanctions busting efforts were uplifted with the provision of credit lines. As for the sanctions regime, this period marked the regime's third phase, which focused on humanitarian exemptions, and its fourth phase, which focused on targeting the import procurement network following the establishment of the original regime during the second

phase. For non-regime political blocs, the sanctions regime on Syria overlapped with counter terrorism sanctions, in the cases of the opposition and ISIL, and blockades from neighbouring countries (Turkey and Kurdistan Regional Government in Iraq (KRG)) in the case of the Kurdish PYD.

The structure of this chapter follows a similar pattern to the previous chapter. The state contestation strategies of the Syria's competing blocs and the responses of Syria's two main social groups will be addressed. Adding to the regime and opposition coalitions, this chapter will introduce two secondary political blocs, namely, the Islamic State in Iraq and the Levant (ISIL) and the Kurdish PYD. The second step addresses the role of international factors, the senders' implementation of sanctions and third parties' behaviour, in shaping the outcome of the sanctions episode. In addition to the role of the third countries, the role of two international non-state actors will be addressed, international humanitarian organisations and the Syrian expatriate community. The third step discusses the implementation of the strategies by the competing blocs while the fourth step discusses the economic and political repercussions respectively. This chapter will be finalised by a conclusion that summarises the interaction of the two examined factors in shaping the outcome of the sanctions episode for the period 2013-2016.

6.2 The Socio-political Contestation for the Syrian State

6.2.1 Regime Strategy

In response to the international power-conceding initiatives, that culminated in the July 2012 Geneva communique's call for a transitional government, and the ensuing military escalation of the Syrian opposition, the Syrian regime's objectives entailed rejecting political concession to power conceding initiatives while thwarting the military offensive unleashed by the Syrian opposition. Alternatively, the President offered the regime's political vision which focused on local-level reconciliations with the fragmented armed opposition groups ("Syria crisis: US," 2013). In achieving these two objectives, several overlapping strategies were pursued which can be summarised as follows:

- The 'dissuasion of adversaries' strategy
- The military preservation of the country's 'urban spine'
- Winning the 'contestation for state re-formation'
- Narrowing down its two-fold strategy towards an "exclusivist form on neo-patrimonialism"

The 'dissuasion of adversaries' strategy implied hinging its bet on the potential spillover effects of the Syrian conflict as a means of dissuading its international and regional adversaries from supporting the opposition. The effects include the Jihadist threat and the refugee crisis and, in the case of Turkey, the Kurdish threat. For this cause, the regime handed over the Kurdish-populated areas in the country's north east to the Kurdish PYD and avoided confrontation with hard-line jihadist groups and focusing on the issue of terrorism in international conferences

(ICG, 2014a, p. 13; Holliday, 2013, p. 33). The local counterpart of this strategy extended beyond adversaries and “aimed at affecting the strategic calculus” of the population in general through highlighting “the negative consequences that would follow should the regimes be overthrown, including sectarian violence, disorder, and economic decline” (Heydemann & Leenders, 2014, p. 84)²⁸.

Preserving the country’s ‘urban spine’ implied securing the country’s urban centres and, more significantly, the country’s ‘central corridor’ comprising of the main communication lines that link the Capital city Damascus with the central city of Homs and in turn with the Mediterranean coast and the Lebanese borders (Nassief, 2014, p. 13). Implementing this strategy necessitated an increasing dependence on its external allies, Russia and Iran, through an incremental shift from indirect military support towards their direct involvement in the military operations, while restructuring its regime’s military force and recalibrating of military tactics (Heydemann, 2013, p. 63-64)²⁹.

As the foundations of the Syrian economy eroded, the regime’s ‘two-fold strategy’ had to be downscaled to match the country’s diminishing resources. On the other hand, the regime’s loss of territorial control towards the military opposition, among other groups, created a ‘battle of governance’ between the contesting blocs in what Hinnebusch (2018) refers to as “Competitive state reformation” (p. 405). As such, the Syrian regime had to ensure the adequate functioning of its state institutions while tarnishing its opponents’ governance capabilities (Martínez & Eng, 2016, p. 168). This created what Hinnebusch (2018) refers to as an “exclusivist form on neo-patrimonialism” (p. 405) where regime opponents were punished, and loyalists rewarded while priorities emerged in terms of rewarding the loyalist camp.

The counter-sanctions strategy: The erosion of Syria’s production capacity implied its increasing reliance on imports to meet its populist commitments and procure production inputs and, herewith, comes the main disruptive role of economic sanctions during this period. After the loss of control of its oil resources and the retrieval of most of its foreign assets, sanctions challenged the regime’s ability to manage its imports as well as revive its export sector and, more generally, procure foreign exchange revenue which, in turn, challenged its narrowed-down two-fold strategy and its capacity to win the governance battle. As such, Syria’s counter sanctions strategy can be analysed within two main categories: The first is related to managing its foreign reserves in terms of both preserving its existent reserves and finding new sources of foreign exchange revenue. The second is related towards managing its need of imports in light

²⁸ Leenders (2013) summarises the regime’s message to its “war-weary citizens” as follows: “If you value a modicum of normalcy, the regime is your best bet for survival” (p. 335).

²⁹ This was implemented through deploying troops from areas deemed un-strategic towards the central corridor, establishing military strong points - which entailed the heavy concentration of checkpoints within specific locations that ensured the preservation of logistical lines through minimum troop commitment - and increasingly resort to air power in military operations. Finally, the limitations of forces within the army and the security forces were complemented by an increasing reliance on recruiting militias (Heydemann, 2013, p. 63-64; Holliday, 2013, p. 33-34).

of the different exports bans and transaction-related sanctions. In both cases, there was an increasing reliance on its political allies, especially Iran, for foreign exchange credit, imports of key products and circumventing transactions-related sanctions. Furthermore, there was a continuation and development of the measures adopted in the previous period (2011 -2012) related to regional countries leading to the development of complex import procurement networks. Finally, the Syrian government relied on international humanitarian organisations to fund and procure essential products of food, medicine and agricultural input and benefited from its wide expatriate community in order to raise foreign exchange revenue.

6.2.2 Opposition Strategy

By late 2012/ early 2013, the armed opposition's attempt to advance further towards the metropolises of Damascus and Aleppo was met with further obstacles. These obstacles led to the re-focusing its expansion in rural peripheral areas beginning with Raqqa al-Raqqa in February 2013 becoming the first provincial capital to fall out from the hands of the Syrian government. Beyond its conflict with the Syrian regime, the Syrian armed opposition faced military confrontation with the newly formed political blocs of ISIL and the Kurdish PYD.

The armed opposition's territorial expansion implied that it faced the challenge of "replacing the state" (Baczko et al., 2013) and had to meet civilian expectations related to the "Ba'th regime's interventionist legacy" (Martínez & Eng, 2018, p. 5) and, thus, had to compete with the Syrian regime in service provision. In this regard, a rudimentary system of "Local – International Hybrid Governance" (Khalaf, 2015, p. 53) emerged, throughout 2012, with several international non-government organisations (INGOs) based in the Turkish border areas providing various forms of aid to a mixture of local actors responsible for service provision on the ground. These local actors comprised of armed factions, local councils, emerging from local coordination committees and Syrian NGOs (Khalaf, 2015, p. 46; Martínez & Eng, 2017 p. 139; Medecins Sans Frontieres (MSF), 2013, p. 12-13). Within this context, 'Replacing the Syrian state' implied building "alternative state institutions" in which the external opposition was tasked "to organize councils and to create vertical integration between them, with the aim of eventually creating horizontal linkages" (Abboud, 2016, p. 68).

This task coincided with the attempts of international and regional patrons to resolve the many problems pervading the military and political opposition related to fragmentation, lack of representation and jihadist infiltration. Within this context, the MB-dominated SNC was replaced with a more representative organisation SNCORF and granted several exemptions to sanctions regime related to financial transactions and trade in oil and agriculture. On the military front, the Supreme Military Council (SMC) was formed with aim of centralising the flow of weapons and the coordination military activity while al-Qaida's affiliate, Jabhat al-Nusra, was blacklisted on the US list of terrorist organisations (ICG, 2013c, p. 12)

In addition to internal obstacles, the Syrian opposition's task of 'replacing the state' was complicated by both the regime's deliberate destructive measures and its subject to a specific

web of sanctions represented an overlap between the general sanctions imposed on Syria, counter terrorism sanctions and specific exemptions for the benefit of the SNCORF. Similar to sanctions affecting government-controlled areas, sanctions pertaining to the opposition-controlled areas comprised mainly of an oil import ban, dual-use and US component export bans and financial related sanctions. In light of these areas' dependency on foreign aid, sanctions affected the flow of financial transfers related to international aid and the ability to procure various items enlisted in the export bans. Nevertheless, rather than discussing a counter sanctions strategy, given the embryonic and fragmented nature of the Syrian opposition's system of governance, one can speak of a series of compliances, adaptations and circumvention measures that the different involved actors resorted to in addressing the sanctions regime.

6.2.3 Other political blocs: ISIL and the PYD

Besides the two main contesting coalitions, two secondary political blocs emerged in the Syrian conflict: ISIL and the PYD. **ISIL** emerged from the schism within al-Qaida following the opposition's takeover of the city of Raqqa spearheaded by Jabhet al-Nusra's. The schism was related to the subsequent declaration from Iraq's al-Qaeda offshoot, the Islamic State in Iraq, of the forming of ISIL, through merging with Jabnet al-Nusra, and the latter's refusal of the merger (Plebani, 2014, p. 12). Contrary to Jabhet al-Nusra, ISIL was not primarily concerned with the overthrow of the Syrian regime but with the imminent restoration of the Islamic Caliphate. In achieving its objectives, ISIL relied on its experience with conducting "hybrid warfare" combining "conventional military capabilities with small unit guerrilla tactics, asymmetric attacks, and highly mobile standoff engagement systems" (Jasper & Moreland, 2014). The group also resorted to the systematic application of violence. Viewed as a "religious obligation", the group did not hesitate to massacre hundreds of civilians and thereby increasing the cost of non-compliance among its subjects (Rosiny, 2016, p. 11). Nevertheless, the group's brutality and ideological zeal did not deter its pursuance of pragmatic alliances or manipulating local politics. Within this context, it shifted from an alliance with the Syrian opposition (June – November 2013) towards military confrontation (January – July 2014) and shifted from a détente with the Syrian regime (January – July 2014) towards military confrontation (July 2014 onwards). Finally, ISIL's self-identification as a state brought the question of governance to the fore as the group placed a special emphasis on providing essential services to its citizens including healthcare, electricity, humanitarian relief and subsidised bread etc... (Revkin, 2016, p. 14). Similar to the opposition, ISIL was subject to the over-lapping of Syria-related sanctions with counter terrorism sanctions while, contrary to the opposition, it did not rely on external financing with exception of some donations from non-state networks. As such, the group had to rely on domestic extraction whether through looting, exploiting natural resources or taxing its subjects for raising financial revenue. Similarly, for procuring the necessary material for its state building project, it had to rely on local sources or on smuggling from neighbouring countries (Center for the Analysis of Terrorism (CAT), 2016).

The **Kurdish PYD's** main objective was to achieve some form of autonomy for Syria's Kurdish populated areas within a future settlement of the Syrian conflict (ICG, 2014b, p. 12). As

mentioned in the previous chapter, the PYD was handed over control of Syria's north east from the Syrian regime in mid-2012. The group set to create its vision of 'democratic autonomy' which implied "empowering self-governance structures at the local level" as opposed to "the rule of a centralised government" (ICG, 2014b, p. 12) and thereby creating Cantons as its administrative unit (ICG, 2014b, p. 15). The PYD remained dependent on the Syrian regime for military support and economic exchange. Regime military support assisted the PYD in its battles with the military opposition and, later on, ISIL over oil fields and in the face of the blockade from Turkey and KRG (ICG, 2014b, p. 8-10; Sary, 2016, p. 15-16).

6.2.4 The response from the populist classes

The response of Syria's populist classes were shaped by three factors. The "security dilemma" resulting from descentance of the country into a civil war with sectarian and ethnic dimensions (Hinnebusch, 2019, p. 56). Welfare provision expectations from the different contesting groups based on "the Ba'ath regime's interventionist legacy" (Martínez & Eng, 2018, p. 5). Finally, the focus of daily survival amid the deterioration of the security and economic situation. As such, Syria's populist classes were divided between joining the military apparatuses of the contesting political blocs, seeking refuge in neighbouring countries or relocating internally to safer areas, and adopting several adaptive measures to cope with the devastating economic situation and the decline in government services such as relying on subsistence agriculture, shifting to rainfed agriculture, creating alternatives to heating and electricity and finally, shifting allegiance to different contesting groups based on their welfare provision capabilities.

6.2.5 The response from the business class

To follow from the previous period, the flight of the business class towards neighbouring countries extended to Syria's top businessmen including relatives of the President, members of Syria's top 100 businessmen and board members of commercial and industrial chambers (Chang, 2018). Along with this flight to neighbouring countries, there was internal relocation of business from conflict-ridden areas towards safer areas in regime-controlled areas. Within this context, many manufacturers from Aleppo relocated their businesses towards the coastal region (al-Khalidi, 2013 June). The process of the elevation of less well-connected businessmen in the business hierarchy continued benefiting from the various opportunities created by the escalation of the conflict, the sanctions regime and the divestment and dissociation of the previous business elite (Abboud, 2017). Abboud (2017) describes their role as that of "intermediation" and providing "conflict services" related "smuggling, weapons trafficking, service provision, and human movement... facilitating transactions to ensure the supply of goods and material from outside so-called regime-held areas". Similarly, the rise of intermediaries in circumventing economic sanctions continued from the previous period as companies specialised in brokering the country's grain imports rose to the fore, such as the Foz Family's Aman Group, and other companies played an essential role in Syria's oil supply chains (Saul, 2013). Furthermore, the pouring of humanitarian aid had implications for businesses as they fulfilled the procurement contracts of the humanitarian organisations (Leenders & Mansour, 2018, p.

241). Finally, with the breakup of the previous links between Syrian business and Gulf capital by the beginning the conflict, new ties were being created with Syria's new trade partners of Russia, Iran and China embodied in the creation of related business councils including Syrian–Russian Business Council (SRBC) and Syrian–Iranian Business Council (SIBC) (Hatahet, 2019, p. 11).

6.3 International Factors

6.3.1 Sanctions implementation

By the beginning of the year 2013, the sanctions package, corresponding with the 2nd phase of the sanctions regime, with its various types of restrictions and various senders, had already been put in place. Nevertheless, in comparison with the previous period, the relative importance of these different types of economic sanctions had changed. The oil import ban, which represented the cornerstone of the sanctions regime, became redundant as the Syrian regime no longer controlled Syria's oil production and, therefore, lost the capacity to export oil. On the other hand, the export bans, on dual-use goods and 10% or more of US content products, had a more profound economic impact in light of the severe destruction of the country's infrastructure and the need for importing new technologies and items such as pumps, pipes and chlorine gas for rehabilitation (Human Rights Council (HRC), 2018, p. 8-10; Walker, 2016, p. 7). Meanwhile, sanctions inhibiting transactions (financial – insurance-related) continued to have their impact on impeding Syria's trade potential and other international economic relations. Throughout the discussed period (2013-2016), the sanctions regime underwent two additional, and somehow contradictory phases, as discussed in Chapter 4. Phase 3 concentrated on humanitarian exemptions related to unfreezing the assets of the Commercial Bank of Syria for funding in related transactions while phase 4, beginning in May 2014, concentrated on extra-territorial sanctions targeting Syria's import procurement networks developed specifically to circumvent the original sanctions package. This shift in the sanctions regime can be attributed to the willingness of the US to increase its pressure on both Syria and Russia after the failure of international diplomacy efforts in early 2014 as will be discussed later ("Russian companies active," 2014). Nevertheless, the glimpse of extra-territorial sanctions preceded these events back to January 2013 with the US threatening to isolate first-tier Russian banks from the international system due to their ties with Syrian banks (Mohammed, 2013; "Russian companies active," 2013).

With the original sanctions package put in place, problems of implementation arose to the fore reinforcing the issue of over-compliance discussed in the previous chapter. Businesses and organisations interested in doing business with Syria had to "comply with a global network of regulators in multiple different jurisdictions" (Human Rights Council (HRC), 2018, p. 5). The licensing system implied that companies and organisations faced many hurdles related to the ability of navigating the system in addition to incurring legal costs, among others, related to obtaining such licenses (HRC, 2018, p. 7-8; Saul, 2014). As such, small shipments, as in the previous period, continued to be the norm in light of the various difficulties and the increased

risk related to arranging larger shipments (Saul, 2014). In opposition-held areas, the sanctions regime was further complicated by its overlap with counter terrorism sanctions and, thereby, exacerbating the problem of over-compliance from organisations, companies and banks (Haid et al., 2013). As for the implementation of humanitarian exemptions, reports indicated that France allowed Syria's imports of wheat and barley to be financed through unfreezing the bank's account at Union de Banques Arabes Francaises (UBAF) (Saul, 2013; Trompiz, 2013). Nevertheless, such reports are restricted to the year 2013 and it does not seem that this practice continued throughout the period under examination.

Similar to the previous period, the US played the over-arching role of monitoring and enforcing of the sanctions regime. On the other hand, the involvement of several EU companies in Syria's import procurement networks indicated that enforcement from the EU member countries slightly waned. In addition to its leading role in imposing secondary sanctions, the US was heavily involved in penalising violators, both domestic and international. These penalties acted as a general deterrent to other companies from violating the current sanctions regime even though the penalised cases were related to violations of SALSRA restrictions, in conjunction with violating other sanctions regimes (Iran, Libya, Sudan, Cuba and Myanmar), following lengthy investigations and settlement negotiations. The penalised companies included European banks such as ING (The Netherlands) and Deutsche Bank (Germany) accused of using the US financial system to facilitate financial transactions with these countries, Dubai-based companies involved in shipping and freighting prohibited US products (computerlinks FZCO and Aramex) and US based subsidiaries involved in selling software and equipment to Syria (Weatherford International Ltd and Barracuda Networks, Inc.). The penalties ranged from 125.000 USD (Aramex) to 258 Million USD (Deutsche Bank) (Bureau of Industry and Security, 2014; Crooks, 2013; Krauland et al., 2012; Sidley Economic Sanctions Practice, 2015; Stecklow, 2013; Zagaris, 2015). On the other hand, no similar settlements with companies blacklisted for violating the current episode of sanctions have been reported. A few blacklisted businessmen were delisted following their dissociation from the Syrian regime. This included the US's delisting of Nabil al-Kuzbari, following his resignation from Cham Holding, and the EU's delisting of Emad Ghreiwati following his dissociation with the Syrian regime (Hatem, 2013; Marinas et al., 2012). Others appeals were rejected given their organic relationship with the Syrian regime. This included members of the Makhoulouf family (Mhd. and Eyad), Bushra al-Assad, the President's sister, despite her departure to Dubai, the businessmen, Tarif al-Akhras and Issam Anboubas, even though the latter distanced himself from the regime ("EU sanctions Syrian," 2014; Gibson Dunn, 2013; Gibson Dunn, 2016). Other less connected businessmen and entities (Maruf, SIIB, Altoun Group and Samir Hamisho), acting as fronts for blacklisted SOEs, successfully challenged the EU courts, based on the lack of sufficient evidence (Abdul Aziz, 2017; Abdul Jalleel, 2019; Gibson Dunn, 2016; Killick et al., 2014).

To conclude, as the sanctions regime grew in complexity, in relation to dealing with multiple jurisdictions, licensing hurdles, the extension towards secondary sanctions, it reinforced the issue of over-compliance increasing the economic burden on the target country. The US over-

arching monitoring role, its resort to penalties and secondary sanctions controlled for EU's waning enforcement and the loopholes within its judicial system. Furthermore, it created a divergence between regime-held and opposition-held territories, as the latter not only had to deal with complexities of country-related sanctions, but with other layers of sanctions as well; thereby, encouraging businesses to avoid interacting with these territories altogether.

6.3.2 Third parties' behaviour

6.3.2.1 Syria's political allies: Russia and Iran

During this period, Syria's two main allies, Russia and Iran, played a key military role which transcended the logistical and advisory support of the previous period towards their direct intervention in the military operations which in the case of Iran was related to provide ground troops and, in the case of Russia, providing direct aerial support to Syrian military operations from September 2015 onwards. Moreover, Russia played a key diplomatic role in the Syrian conflict as it brokered the September 2013 'Chemical Deal' between the US and the Syrian regime - in which the Syrian regime agreed to destroy its arsenal of chemical weapons in return for avoiding a US military strike following the latter's allegations of the use of such weapons – and played a key role in international diplomatic initiatives such as Geneva 2 of early 2014 and the 'Cessation of Hostilities' in early 2016.

Nevertheless, the extensive Russian and Iranian military support were contrasted by the modest levels of economic support. This can be attributed to the absence of commercial interests, as discussed in the previous period, as well as to intra-governmental bureaucratic politics as the lavish military establishment was constrained by the more financially reserved civilian institutions (al-Haj, 2015; "Russia, Syria, fail," 2012).

Overall, the period (2013-2016) witnessed an increase in Iranian economic support to Syria in contrast to the downgrading of Russia's role. The clear contrast between the two countries was reflected in the area of loan provision. Thus, while Russia refused to provide any loans the Iranian side provided Syria with three **credit lines** worth 5.6 Billion USD. The refusal can be traced to the intransigence of the Russian Ministry of Finance owing to "the history of their bilateral relation" and Syria's failure to repay its previous debts ("Factsheet: Syria-Russia," 2017). Another area was related to facilitating financial transactions. In this area, Russia's first tier banks which played a central role in facilitating Syria's international financial transactions, during the period 2011-2012, succumbed to US pressure, for fear of being isolated from international financial markets, and cut their ties with the Syrian financial system. These relations, in turn, were outsourced to Russia's second tier banks, with less international exposure, such as Tempbank which played a financial role in Syria's in both Syria's oil and grain imports (Bowen, 2013; The Camstoll Group, 2014; Grove, 2013; "Russian companies active," 2013).

In contrast, the Iranian role was pivotal in these areas as manifested by the Iranian credit lines. The Iranian credit line represents an arrangement between the Commercial Bank of Syria and

the Iranian Sadirat Bank where the later provides a credit facility for financing the former's import contracts in addition to providing insurance coverage for the shipment related to the contract. Syrian companies, mostly SOEs, send a request for financing their import contracts to the Commercial Bank of Syria which, in turn, sends the request to the Iranian Sadirat Bank. The Iranian Sadirat Bank has the right to either reject or approve financing the contract and, if approved, a credit facility is provided for the amount of the contract and the Iranian Sadirat Bank pays the exporting company on behalf of the Commercial Bank of Syria. The payment mechanism differs depending on the nature of the exporting company. If the exporting company is Iranian then payment is made directly to the exporter and in Iranian currency. On the other hand, if the exporting company is non-Iranian company then the Bank provides a credit facility for the purchaser to his credit account at the Commercial Bank of Syria and pays directly to the exporting company. In theory, the Commercial Bank of Syria is supposed to reimburse the Iranian Sadirat Bank after six months over several installments in addition to paying some additional fees ("al-Nass al-kamel li-itfaqiyet," 2013). Therefore, the **credit** line concomitantly represented an Iranian loan, a means to circumvent financial sanctions and, indirectly, a means to increase Iranian exports to Syria. Between 2013 and 2016, three **credit** lines were operated with a total worth of 5.6 billion USD. The first two were agreed upon in 2013; the first worth 1 billion USD, was dedicated to key products (essential foods and pharmaceuticals) as well as equipment necessary for the maintenance of the electricity sector and the second, worth 3.6 billion USD, was dedicated for Syria imports of petroleum products (Bahhah, 2014; al-Khalidi, 2013; "Syrian state entities," 2014). The third **credit** line, also worth 1 billion USD, was signed in 2015, following a lengthy process of negotiation, and was aimed at replacing the exhausted first **credit** line ("Factsheet: Syria-Iran," 2015; Westall & al-Khalidi, 2015)³⁰.

With the downgrading of financial cooperation, Russia's imports to Syria dropped as well²⁸. These changes had their impact on both countries' level of exports to Syria as the downgrading of Russia's banking relations with Syria led to a drop in Russia exports to Syria although remained an exporter of wheat and petroleum to Syria (Butter, 2015, p. 14, 25). the other hand, The Iranian **credit** lines increased the volume of Iranian exports to Syria with annual exports estimated to have exceeded 1 billion USD including petroleum products, sugar, wheat, vaccines, poultry and electronics (al-Khalidi, 2013; "Trade deficit at," 2015). However, and in contrast to the main trend, the initial Russian disinterest in Syrian exports, especially agricultural exports, was reversed following its direct military intervention. Several factors played a role in such a change including the interest in winning over the local population (concentration of citrus) where the aerial base was launched, the interest in Syrian agricultural products in light of Russian import sanctions on Turkish agricultural products as well as the interest in pro-Kremlin agricultural companies in monopolising the exporting and marketing of Syrian agricultural products (Mashi, 2015; Hatahet, 2019, p. 15). For this cause, "The Syrian Russian Export-Import Village" was inaugurated in the Syrian coastal area. The 'Village' represented a trade area

³⁰ The lengthy process of negotiations revolved the issue of procuring necessary collateral for such loans which will result from 2017 onwards as an 'aid for Syrian assets' exchange.

consisting of several Russian companies acting as an intermediary between the Syrian and Russian markets in which these companies purchase Syrian agricultural products and assume the responsibility for shipping and marketing them to Russia (Sulaiteen, 2015).

6.3.2.2 Regional countries: The development of import procurement networks and the resurgence of the role of Turkey

While Lebanon's role in trade triangulation continued, the volume of trade subsided as a large proportion of Syria's imports, especially petroleum products, reached Syrian ports directly either from Iran or through Syria's newly developed import procurement networks ("Trade with Lebanon," 2015). Import procurement networks comprised of various companies that intermediate between the Syrian SOE and the international provider. Usually a local private company act as the front for the SOE and collaborates with regional companies to arrange the payment, shipment and insurance affairs with the international provider. For example, the Syrian private company (Abdulkarim Group) coordinated with the UAE-based companies (Pangates and Maxima) to import several petroleum products from Western companies, Staroil B.V. (Netherlands) and Rixo International (Switzerland), for the benefit of the Homs Refinery. Pangates represented the consignee of the shipments which managed to reach the Syrian port after falsifying the documents regarding the destination and content of the shipment and the use of several intermediary ports (USDT, 2014, December). The same private company after being blacklisted created its own front company (The Eagles) which, in turn, arranged with the Turkish company (Milenyum Energy) to import gasoil and LPG on behalf of the Syrian government. Payments were arranged through the Syrian private company, and Lebanese company (Ebla Trade) and a company Blue Energy registered in St. Kitts and Nevis while the shipments were delivered directly to the Syrian port Baniyas after the falsification of documents claiming Eretria to be the final destination (USDT, 2015, March). After the downgrading of the Syrian-Russian banking relations, economic relations relied on similar networks. Banknote deliveries from the Russian printing company (Goznak) were delivered through the intermediation of the Cypriot and Lebanese companies with the Cypriot bank (Piruseti) arranging the payment and the Lebanese company (DK) arranged the transportation "via third-country cargo flights" (USDT, 2014, October). Syria's purchases oilfield equipment and fuel from Russian companies were arranged by the Russian branch of the Syrian private company (HESCO) while the payment was arranged in Lebanon through a foreign exchange company (Moneta Transfer and Exchange) (USDT, 2016, July).

With the creation of opposition-controlled territories in the north, the previous contraction in Turkish-Syrian trade was reversed as these areas became primarily dependent on Turkish products (Uras, 2013). Furthermore, the city of Mersin, in southern Turkey, emerged as a new trade triangulation hub for these territories (Pamuk & Saul, 2013). Gradually, Turkish products infiltrated regime-controlled territories via smuggling networks from opposition areas. Although, most of these products comprised of foodstuff and textiles and, thus, do not represent a direct undermining of the sanctions regime, nevertheless, the cash-based

transaction undermined the financial sanctions imposed on rendering Turkey one of Syria's prime importers (Uras, 2013; "Turkiya akbar shreek," 2017).

6.3.2.3 Other international factors: non-state actors

Beyond state-level analysis, two non-state international factors contributed towards shaping the sanctions outcome, namely, international humanitarian aid and Syrian expatriates. Their role in undermining the sanctions episode was related to providing a new source of foreign exchange revenue for the Syrian government.

According to World Bank estimates, humanitarian aid to Syria increased at "an annual growth rate of 131 percent between 2011 and 2016... from US\$39 million in 2011 to US\$2,584 million in 2016" (WBG, 2017, p. 72-73). The flow of humanitarian aid ran through "two distinct modalities of operating" (Svoboda & Pantuliano, 2015, p. 5). The first in coordination with the Syrian government and mainly involved UN organisations (World Food Programme (WFP), UNICEF, WHO, UNRWA, the United Nations Population Fund (UNFPA), UNDP, the International Organization for Migration (IOM), the Food and Agriculture Organisation (FAO)) as well as the International Federation of Red Cross and Red Crescent Societies (IFRC) and the International Committee of the Red Cross (ICRC), and providing for food, shelter, health and education (FAO & WFP, 2013, p. 29-30; "Two-thirds of", 2016). The second modality relied on cross-border operations that directly poured into opposition-held areas (Svoboda & Pantuliano, 2015, p. 5). These included independent INGOs such as Medecins Sans Frontieres and Medical Corps, INGOs affiliated with opposition "sympathising" countries and NGOs in connection with the Syrian diaspora or religious solidarity networks (MSF, 2013, p. 13; Gharibah et al., 2017, p. 20). Donors preferred to rely on the first modality and channel their funds through UN organisations minimising the risk of violating counter-terrorist sanctions associated with funding NGOs carrying cross-border operations (MSF, 2013, p. 13; Meininghaus, 2016, p. 1463). Therefore, the second modality of channelling aid through cross-border operations "only received a fraction of donor funds" (Leenders & Mansour, 2018, p. 248). INGOs, from there side, keen on avoiding "reputational damage" developed strict sanctions compliance procedures and undertook several measures related to the choice of the local partner, area of operation and the type of assistance as will be discussed later (Gordon et al., 2018, p. 17).

As mentioned in Chapter 3, Syria possessed a vast expatriate community which was further enhanced by the Syrian conflict with around 1 million Syrians residing in the Gulf countries alone. Estimates of the annual amount of remittances sent to Syria during 2013 -2016 ranges between the 1.2 billion USD (IMF) and 2.5 Billion USD (CBS) (Ghusn, 2014; Gobat & Kostial, 2016, p. 28). Another source of foreign revenue that the expatriates would contribute towards is related to the consular fee for passport renewal as will be discussed in the next section.

6.4 Domestic Factors

6.4.1 The implementation of regime strategies

6.4.1.1 *Military Strategy*

Preserving the country's 'urban spine' implied securing the country's urban centres and, more significantly, its central corridor which comprised of the two cities of Damascus and Homs and the main communication lines that link these two cities with the Mediterranean coast and the Lebanese borders (Nassief, 2014, p. 13). The strategy can be divided into a defensive phase, absorbing the opposition's initial attack, and an offensive phase, cutting the opposition's supply lines towards those urban centres followed by a tight siege and forcing the adversary to accept government-conditioned reconciliation agreements (Szybala, 2014, p. 14-16). The timing of these phases differed according to the different cities. In Damascus and Homs, the shift occurred in spring 2013 while, in Aleppo, this shift was delayed till late 2013, as the military was struggling with keeping its own supply routes open (Szybala, 2014, p. 14-16, Nassief, 2014, p. 26). This strategy faltered throughout 2014-2015 as the opposition's counter-advancement in peripheral rural areas threatened the country's central corridor (Cafarella, 2014, p. 29-30; De Young & Sly, 2015 April; Kozak, 2015, p. 25-31). By the end of the year 2016, the strategy achieved an important milestone with the recapturing of the city of Aleppo as will be discussed later.

6.4.1.2 *Sanctions counter strategy*

Foreign exchange management : By the year 2013, Syria's sources of foreign exchange revenue had dried up and its export prospects had dimmed. Sanctions on its oil exports, and the subsequent failure to redirect them to other countries, was followed by the government's loss of control over its oilfields while the revival of its devastated manufacturing exports were constrained by transaction-related sanctions (WBG, 2017, p. 61). Syria's retrieved foreign reserves remained a primary source for import funding which was pumped into the market through its 'managed devaluation' policy as estimates were indicating their near exhaustion by the end of the discussed period (Gobat & Kostial, 2016, p. 16). The main novelty in foreign exchange revenue for this period was the three Iranian credit lines, worth %6.6 billion USD. As mentioned, the first credit was exhausted by mid-2014, and coincided with a disruption in the second credit line dedicated to oil, while the third credit was agreed upon in August 2015 following lengthy negotiations³¹. As mentioned, the Syrian expatriate community played a role in shaping the government's strategy in foreign exchange procurement. The Syrian government tried to benefit from this factor through enacting a law that stipulated paying the transferred amount in Syrian pounds and replenishing its foreign exchange reserves through retaining the foreign exchange (Ballan, 2014). Another novel means of raising foreign exchange revenue from its expatriate community was to double the consular fee for passport renewal and relax the

³¹ During this disruption period, the Syrian government appealed to Russia for a loan, which it failed to secure as discussed earlier; furthermore, it sought for minor grants and deals with other countries such as India, Belorussia, South Africa and Indonesia (Yazigi, 2015).

renewal restrictions imposed on opposition sympathisers. This law took place in April 2015 when Syria was still searching for new revenue sources during its negotiations over the third Iranian credit line (“Passports, a main source,” 2015). On the other hand, the government sought to restrict foreign exchange and import demand through re-introducing import licenses followed by restricting import funding to a list of essential products as will be discussed when addressing Syria’s foreign exchange/monetary policy (“Government restricts imports,” 2013; “Government publishes list,” 2016).

Import procurement: The destruction of Syria’s production base and the loss of the government’s control over the country’s wheat and oil fields increased the importance of procuring key essential products through imports. This in turn implied the necessity of circumventing several export bans and transaction-related sanctions in addition to procuring the necessary foreign exchange for finance. Overall, four main categories of imports can be distinguished based on origin (Iranian vs. non-Iranian products) and method of finance (Iranian credit line vs. other methods). The first category represents Iranian products funded by the Iranian credit line. This includes Iranian shipments of crude oil and petroleum products, pharmaceuticals, equipment for the electricity sector and wheat flour. The second category represents non-Iranian products funded by the Iranian credit line. This category comprises mainly of ‘essential foodstuff that cannot be produced locally’ such as tea, sugar and rice imported by public sector affiliated foreign trade establishments (Bahhah, 2014; “Factsheet: Syria-Iran,” 2015). The third category can be broadly referred to as ‘non-Iranian products not funded by the Iranian credit line’ and entails the various methods previously discussed including trade triangulation through Lebanon, imports processed through regional companies (import procurement networks) and directly shipped to Syrian ports, small shipments of private sector imports paid through international accounts imported through Western companies, imports of wheat and fodder imported primarily from France funded through the unfrozen accounts of the Commercial Bank of Syria. The final type of imports is related to imports procured by the different UN organisations operating in Syria such as wheat and other essential food products, imported by WFP and FAO and medicines and medical equipment imported by WHO benefiting from the US general licenses (HRC, 2018, p. 7).

In the case of wheat, the government’s centralised purchasing system contracted and was reduced from 80% to around 25-35% of total production. Economically, it became more feasible to import wheat from Black Sea countries rather than to transport wheat from its sources in the north east to the country’s urban centres. To take the year 2015/2016 as an example, imports of wheat totalled 1 110 000 tonnes which were procured through three main sources. The Government procured 600 000 tonnes of Black Sea wheat through the Iranian credit line, private companies imported 200 000 tonnes of wheat while 310 000 tonnes were delivered by different UN organisations (FAO & WFP, 2015, p. 28, 32). Similarly, in the case of crude oil, the government’s reliance on domestic sources, both from government and non-government-controlled areas, contracted in favour of crude oil imports although it is more difficult to trace the different sources of crude oil imports. However, what can be verified is that the overall

amount of crude oil processed at Syria's two refineries exceeds the sum of the declared amount of Iranian oil deliveries and the potential crude oil deliveries from domestic sources and therefore indicating other foreign sources of Syria's crude oil imports ("Factsheet: Syria-Iran," 2015).

Similar to the previous period, Syria's imports did not completely fulfil its domestic needs (Saul, 2014). More serious constraints arose in procuring imports related to the **health and pharmaceuticals sectors**. These entailed importing specific medicines (such as cancer treatment, epilepsy treatments and kidney transplant-related medicine etc.), equipment and their spare parts as well as relevant software and reference pharmaceutical standards. Import constraints in this sector were exacerbated by the difficulty in substituting them with non-US/EU products, due to patent rights, as well as the reluctance of international pharmaceutical companies of utilising humanitarian exemptions associated with this sector (HRC, 2018, p.9-10; Walker, 2016, p. 20). The export ban on dual-use goods also had a severe impact on the ability to import of agricultural production inputs affecting the availability of pesticides, crop-protection chemicals, pest-controlling phytosanitary material, veterinary vaccines and granular fertilizers (FAO & WFP, 2013, p.16; FAO & WFP, 2015, p. 18-20, 25). The concurrent exhaustion of the first credit line, the disruption of the second credit line and the beginning of targeting the import procurement networks, in the second half of 2014, affected Syria's capacity to import crude oil, petroleum products and essential foodstuff not produced locally (the second category), and weakened the public sector's role in foreign trade ("As'ar al-aruz," 2016; Lund, 2014a).

6.4.1.3 Implementing an exclusivist form of neo-patrimonialism & competitive state – reformation strategies

As mentioned, the regime pursued an exclusivist form of neo-patrimonialism which narrowed down its two-fold strategy to accommodate for the decline in resources, from one side, and penalised its opponents and ensured the tarnishing of rivals' state building projects, from another.

Prior to discussing every item on its populist commitments, it is necessary to highlight how the Syrian regime utilised **humanitarian aid** towards achieving its strategy and, therefore, compensating for its dwindling public revenue and its devastated public sector. Several measures were applied to co-opt humanitarian aid. To begin with, the Syrian regime utilised UN legislation that stipulates "the primary role" that the official government plays in "managing humanitarian assistance within its territory" (Haid, 2019. p. 5). This clause acted as a prelude for the Syrian government's supervision over the complete process of humanitarian aid and deprived institutions linked with the official opposition from working directly with UN humanitarian organisations. As such, the Syrian regime set to control the whole network of actors involved in delivering humanitarian aid and, thereby, constraining the operation of UN-affiliated organisations through reducing the authorised number of to a few agencies, that mainly existed prior to the Syrian conflict, thus easing the ability to control these INGOs

relations with UN organisations (Leenders & Mansour, 2018, p. 232). In terms of controlling the actual delivery of humanitarian aid, the government imposed “mandatory operational partners” (Leenders & Mansour, 2018, p. 232) mainly known as “gate keepers” that consisted of a few Syrian organisations with “extensive formal and informal ties” (Haid, 2019, p. 6) with the regime. It was only through those ‘gate keepers’ that operational matters, such as field visits or monitoring & evaluation, could be arranged. This, in turn, limited the oversight on the UN organisations over its aid delivery and obscured the extent of aid manipulation towards achieving regime objectives (Haid, 2019, p. 8-9; Martínez & Eng, 2016 p. 167). Furthermore, the Syrian government, through accepting and denying visas for the organisation’s staff, was able to interfere in staff appointment and select personal more attuned to comply with regime objectives (Haid, 2019, p. 7). These measures allowed the regime not only to deny aid to opposition-held areas and redirect them towards its constituency, but they also assisted the regime in its siege strategy through making UN aid deliveries pertinent on accepting the regime reconciliation agreements (Martínez & Eng, 2016 p. 167; Meininghaus, 2016, p. 1469).

The regime’s exclusivist strategy possessed a **regional dimension** as it distinguished between loyalist and regime-controlled regions, from one side, and opposition-held or opposition-sympathetic regions, from another. As the regime’s military strategy aimed at preserving its ‘urban spine’, it set to ensure that Syria’s key cities are attractive to residents of opposition-held areas. As such, it set to ensure that “the cities under its control would remain open to internally displaced people (IDPs) leaving devastated war zones under opposition control” (Hallaj, 2017, p. 15) which became centres for aid distribution. Furthermore, it centralised its administrative services in its heavily fortified provincial centres while depriving such services to the surrounding opposition-controlled areas (Khaddour, 2015, p. 5). While public investment was considerably reduced, to meet the budget’s current expenditure, loyalist regions such as the Alawite-inhabited Coastal region received a disproportional share of these scarce resources as investments related to health, drinking water and electricity was concentrated in that region (“Syrian regime pours,” 2016). The region also became one of the centre for the distribution for humanitarian aid with a network of international and local agencies (Martínez & Eng, 2016, p. 168). This situation was contrasted by “the targeting of public infrastructure in opposition-held areas” and cutting social services provision (Martínez & Eng, 2018, p. 2). Nevertheless, territories controlled by ISIL were spared from excessive bombings throughout the opposition-ISIL military confrontation from late 2013 till mid-2014, a policy can that be viewed within the context of its ‘dissuasion of adversaries’ policy (Khaddour, 2015, p. 3).

In addition to the regional dimension, regime strategy implied **prioritising among the different populist commitments** (public salaries, subsidised consumption of goods, subsidised provision of public services and support to agriculture). Within this context, **public salaries** represented the most prioritised item and represented the highest item in the current budget (WBG, 2017, p. 63). Salaries were nominally increased to partially offset the impact of currency devaluation even when subsidies on energy products were being scrapped (“Civil servants pay,” 2013). Furthermore, salaries were dispersed to all regions of the country beyond government-

controlled areas (Hinnebusch, 2018, p. 399). The continuation of public salary payments in opposition-held areas allowed the regime to maintain the loyalty of those civil servant especially though withdrawing payment to those involved in opposition activities (Khaddour 2015, p. 7). On the other hand, the scarce government job openings were given priority to family members of the armies' deceased members ("Syrian government to," 2014).

Besides the payment of public salaries, the '**politics of bread**' represented the cornerstone of the Syrian regime's governance policy. The main strategy was to provide its controlled areas with sufficient amounts of subsidised bread while seeking to destroy its rivals' bread production capabilities through halting wheat deliveries to flourmills and bombing bakeries in areas outside its control (Martínez, 2019, p. 11; Martínez & Eng, 2017, p. 138). Achieving this strategy had to be realised upon new realities related to the erosion of the wheat self-sufficiency system - with the loss of control of regions with heavy wheat production, the reduction of wheat collection points, the reduction in the national wheat reserves with the loss of control of many storage silos - shortages in production inputs (fertilizers, seeds, pesticides, diesel etc..) and the destruction of irrigation networks (Gobat & Kostial, 2016, p. 11). In other words, bread provision had to be realised amid the decrease in overall wheat production and productivity (yield per hectare) and the erosion of the centralised wheat purchasing system. As mentioned, the government relied heavily on wheat imports which was procured through three main sources: Government purchases through the Iranian credit line, private companies and humanitarian organisations. On the other hand, procuring wheat from rival domestic blocs continued through offering premium prices to farmers and creating an intense price competition between the rival blocs. The policy was met with mixed results depending on the ability of rival blocs to match government prices, their resort to coercive measures to prevent farmers from selling and the willingness of farmers to sell especially if they were indebted to the Agricultural Cooperative Bank (Madi, 2019, p. 12). As such, the government's centralised purchasing system contracted from 80% to around 25 -35% of total production (FAO & WFP, 2013, p. 17). Procuring sufficient amounts of wheat was complemented by ensuring the adequate functioning of public bakeries and supporting private bakeries through providing subsidised fuel and flour (FAO & WFP, 2015, p. 18, 29-30). While overall bread supply was in sufficient amounts the increasing costs for procuring wheat whether through imports and domestic purchasing coupled with fixing of the price of bread created a shortage in the supply of subsidised bread as early as 2013 (FAO & WFP, 2013, p. 8).

Besides bread, the government put emphasis on procuring **essential foodstuff not produced locally**. While facing many obstacles in procuring such products during the first period of sanctions, the Iranian credit line facilitated the restoration of the public sector as a key importer of such products. This, in turn, allowed the government to revive some of its populist era measures. Its coupon scheme, previously confined to sugar and rice, was extended towards other essential food products such as tea, ghee, cooking oil, bulgur wheat and the government's role in retail trade was enhanced as the public sector's points of sale 'positive intervention

institutions' were stocked with food products funded by the first Iranian credit line. (Qadri Jameel: nahnu," 2013; "Syria's economic mood," 2013).

Similar to wheat, **crude oil** was procured from both domestic and external sources and was processed at Syria's two refineries. Government-controlled oil production plummeted dramatically from to 10,000 bpd from a 2010 level of 386,000 bpd. The government was able to procure 15,000 bpd from the PYD-controlled Rmailan field - Iran delivered around 60,000 bpd. This roughly left around 35,000 bpd procured between ISIL and non-Iranian imports ("Factsheet: Syria-Iran," 2015; WBG, 2017, p. 54-56). Syria's refining capacity was reduced to half from 240,000 towards 120,000 bpd. (WBG, 2017, p. 54-56). The original refining capacity represented 75% of its pre-conflict Syria's needs and therefore the current capacity represented around 35% of pre-conflict needs. Furthermore, Syria relied on imports of petroleum products such as LPG, diesel and gasoil although their quantities are difficult to ascertain. This situation ensured the basic functioning of the Syrian economy; however, it created chronic shortages in many petroleum products especially diesel. These shortages led to the gradual removal of subsidies on petroleum products and the gradual increase in their official prices (FAO & WFP, 2013, p. 28-29; FAO & WFP, 2015, p. 18, 50). The chronic shortages in procuring petroleum products also affected the country's **electricity** supply which was reduced to around 40% of its pre-conflict level. This reduction exceeded the decline in country's overall generation capacity (which was estimated around 70% of its pre-conflict capacity) indicating the significant role of fuel shortages in reducing the country's power supply (WBG, 2017, p. 31). This situation led to the adoption of a 'Rationing Policy' in which electricity was provided a few hours a day; nevertheless, electricity provision remained heavily subsidised (WBG, 2017, p. 33). Contrary to providing minimal electricity supply in regime-held areas, the electricity supply to opposition-held areas, in most cases, was deliberately cut by the government (Ghusn, 2015 April).

The government's capacity to deliver **health services** was reduced with destruction of health facilities, as nearly half of hospitals and three quarters of other medical centres were either partially or completely destroyed, the destruction of the pharmaceutical industry and the difficulties in importing medical supplies, pharmaceuticals and health equipment (Martínez & Eng, 2018, p. 6; WBG, 2017, p. 39). Similarly, in the case of **education** facilities, more than 40% of schools were out of services (WBG, 2017, p. 44). The decline in government's facilities and services in health and education was partially compensated by agreements between relevant ministries (Ministry of Health and Ministry of Education) and UN agencies, among other INGOs, to provide such services (Leenders & Mansour, 2018, p. 241, al-Khateeb, 2015).

The failure to import several agricultural inputs of was exacerbated by the decline in the domestic production of capacities for such inputs as the many factories were destroyed. The chronic shortages of such inputs made their provision to farmers "rare and irregular" covering less than 10% of actual needs and sold strictly to members of agricultural associations when available (FAO & WFP, 2013, p. 8; Syrian Centre for Policy Research (SCPR), 2019, p. 41). Furthermore, the ACB overburdened with providing credit to public establishments for its purchases of wheat and other strategic crops (Cotton and sugar) ceased to provide loans to

farmers (Madi, 2019, p. 10). As such, **support to the agriculture sector** was reduced to the minimum with the government's "partial retreat" (SCPR, 2019, p. 41) from strategic crop purchases and its irregular provision of subsidised inputs. As an example of the minimal form of support, farmers were still given priority for fuel allocation albeit at market prices (FAO & WFP, 2015, p. 18; Madi, 2019, p. 15-16).

The monetary authorities were quick to avert a financial crisis as the pound hiked from 150 to 300 SYP/USD between May and July 2013 (Hanke, 2015). This turbulent period was followed by a period of stability, between September 2013 – September 2014, for foreign exchange and inflation rates, as the foreign exchange market rate hovered within the margin of 150-200 SYP/USD (Sayigh, 2014; SCPR, 2014, p. 25-26; SCPR, 2015, p. 32-33). While the previous policy 'managed devaluation' continued and was supplemented by legislation making arranging domestic transactions in foreign currency illegal, the new stability can be attributed to more structural military and economic factors (SCPR, 2014, p. 25). The success of 'cutting supply lines' strategy in Damascus and Homs contributed to relinking the Syrian capital with its central and coastal areas and creating a partial revival in economic activity (SCPR, 2015, p. 26; Yazigi, 2014, May). Syria's new trade arrangements, whether related to the introduction of import licenses or the operation of the first two Iranian credit lines, also played a role in stabilising the currency.

As mentioned, the **business class** that remained inside Syria relocated its businesses into safer areas while others sought new opportunities in providing 'conflict services' and sanctions circumvention services. From its side, the government encouraged the relocation of businesses to safe areas in coastal region through loan provision and setting industrial zones in such areas (WBG, 2017, p. 59). The new opportunities in conflict and sanctions circumvention services were managed by the Syrian regime in a manner that ensured its rewarding and punishing strategy. The regime set to ensure that such opportunities are allocated to loyal businessmen. This included contracts related to humanitarian aid, granting import licenses and the involvement in intra-Syrian trade between regime and non-regime areas (Daher, 2018, p. 16; Abboud, 2017). Sanctioned businessmen, who did not dissociate themselves from the regime such as Hamsho, Altoun, Maarouf and Akhras, were heavily awarded procurement contracts with international humanitarian organisation while sanctions circumventing opportunities were awarded to less prominent businessmen who were not targeted by sanctions (Haid, 2019, p. 9; Leenders & Mansour, 2018, p. 241). On the other hand, the business class members who dissociated themselves from the regime or were outright opposition sympathisers were subject to harassment, under the pretext of illegal foreign exchange transaction or tax evasion, and even had their assets frozen and resold at public auctions. Such measures applied to the blacklisted and dissociated members of the dependent elite such as Anbouba, Graiwati and Kuzbari (Abdulaziz, 2018; "al-Nizam yusadiru," 2013; "Sulutat al-nizam tudahem," 2014).

Mid-2014 Changes: As mentioned, Syria's capacity to import was severely hindered in the second half of the 2014 with the disruption of the Iranian credit lines and the new phase of sanctions targeting its import procurement networks. The implication of these factors on the domestic economy was exacerbated by the impact of the series of military setbacks, associated

with the opposition's counter advancement from the peripheral area as well as ISIL's advance in regime areas. Economically, the regime's military setback implied the loss of its remaining border crossing points and trade routes linking the country with Jordan and Iraq and their impact on the remaining categories of Syria's exports (phosphates, livestock and eggs). ISIL's advance in the desert implied the loss of control over its phosphate mines and the loss of many gas fields affecting its power supply capacity (al-Ibrahim, 2015; Sherlock, 2015; SCPR, 2015, p. 16). Furthermore, the US-led coalition bombing of ISIL-controlled oil fields also decreased the amount of crude oil that regime areas received from ISIL areas (Lund, 2014a). These developments tarnished the short-term stability that regime-held areas enjoyed creating an intermittent series of product shortages, fuel crises, price and currency hikes and prompted the government to make several adjustments in its fiscal and monetary policies.

Throughout the Syrian conflict, the government did not undertake any radical measures to raise its **revenues** as it relied mainly on remaining public revenue from the telecommunication sector and international trade in addition to borrowing from the public banks and the informal contributions of the loyal businessmen. Whereas its attempts to introduce a 'Billing System', which would act as a platform for introducing a 'Value-added tax' system, remained a draft project (Daou, 2015). However, a series of fees, lump sum and indirect taxes were either introduced or increased in 2015. This included doubling landline fees, introducing a new rental fee, fees for foreign residences, driving licenses and gold legalisation, a lump-sum tax on restaurants based on the number of chairs, and introducing a tax on Shawarma, Syria's famous street food ("Damascus taxes shawarmas," 2015; Facing increasing financial," 2015; Ghushn, 2015, October). The Consular fees, as mentioned when discussing raising foreign revenue, represented the revenue-raising achievement of this period ("Passports, a main source," 2015).

In contrast to the minor policy adjustments from the revenue side, the public expenditure side witnessed a more systematic policy turn as the government elaborated what it termed as '**subsidy rationalisation**' policy (Arslanian, 2016). In this regard, several rounds of price increases of essential products were carried out. This included energy products, utilities, sugar, rice, cooking oil and even bread historically viewed a 'red line' in Syrian economic policy ("After bread and," 2014; Hadid, 2014; "Syria increases price," 2014; "Syria lifts oil," 2015). The prioritisation of different elements of the country's populist commitments was best reflected during the period, as these measures were paralleled with an increase in public sector salaries (Butter, 2016 p. 12). Regarding 'essential foodstuff not produced locally', the failure of the government to procure such items through the Iranian credit line led to a series of price increase, their decreasing availability at the public sector's position intervention institutions and abolishing the coupon scheme by late 2015 ("As'ar al-aruz tatrafe'," 2016; "Government increases again," 2015; Kassah, 2017).

The deterioration of the economic situation was reflected through the acceleration of the **depreciation of the Syrian currency** which crossed the 200 SYP/USD threshold in November 2014 and stabilised at around 550 SYP/USD by the end of 2016 ("Syrian pound slips," 2014; "Syrian pound gains," 2016). The conventional intervention method of raising the official

exchange rate while pumping US dollars into the market proved to be temporary and ineffective especially with the decrease in volume of market intervention due to the depletion of foreign exchange reserves (“Dollar, euro cross,” 2015; “Syrian central bank,” 2015). Further restrictions were imposed on providing import licenses which were confined to a priority list of production inputs and essential consumption products. The monetary authorities even resorted to growth-impeding harsh measures such as restricting the market’s liquidity supply through reducing the amount of cash made available to commercial banks (“Four main factors,” 2016; “Cash shortage strengthens,” 2016; “Government publishes list,” 2016).

6.4.2 The implementation of strategies in non-regime blocs

6.4.2.1 The Syrian Opposition

As mentioned, a rudimentary system of “Local – International Hybrid Governance” (Khalaf, 2015, p. 53) emerged in opposition-held areas. The international side comprised of the donors, INGOs and international banks while the local side comprised of armed groups, local councils, Shariah courts, local NGOs and merchants. Within this system, Turkey, and more specifically its southern border towns, represented the connexion which links between the two dimensions of the system. The port city of Mersin emerged as the centre of the opposition’s trade triangulation with the rest of the World triangulation whereas the border city of Gaziantep transformed into a hub for INGOs and diaspora NGOs which connected with local actors to implement their programs. More generally, Turkish manufactured products represented the major source of imports in opposition-held areas. In opposition-controlled areas in southern Syria, a similar system emerged with Jordan assuming the connexion that Turkey played in the north (Martinez, 2020, p. 14). The situation differed in the besieged areas in Metropolitan Damascus as essential material was smuggled from regime areas through tunnels operated by armed factions in connection with a network of regime personal and merchants on both sides (Bojicic-Dzelilovic & Turkmani, 2018, p. 4-5).

Among local actors, Local Councils represented the main actor in the field of service provision covering a wide range of activities from managing utilities and garbage collection to providing services in health and education. Local Councils “asserted their authority and leading role” vis-à-vis other local actors who needed their coordination in matters related to service provision (Gharibah et al., 2017, p. 13). On the other hand, the armed groups’ role in service provision involved their direct control of “key infrastructure such as electricity and water plants” (Svoboda & Pantuliano, 2015, p. 12) and in addition to their indirect role in shaping service provision through their relations with other local actors involved and with other armed groups. Differing from one case to another, relations between armed factions and Local Councils ranged between coordinative or competitive. In general, there was a division of service provision between the two sides where security and judicial affairs were run by armed factions affiliated ‘Shura Councils’ and service provision was carried out by Local Councils (Hallaj, 2017, p. 13-14). The fragmentation of jurisdiction among different armed factions in a specific city or town implied the fragmentation of service provision accordingly creating an adverse impact on the quality of

service provision (Donker, 2019, p. 26). The power of armed groups vis-à-vis other local actors was most nuanced in besieged areas (Eastern Ghouta and other areas surrounding Damascus). Their power was attributed to their ability to control the procurement of essential goods through developing a complex network of tunnels specialised in smuggling such goods from regime areas in coordination with regime officials and merchants on both sides. The process provided armed factions with the revenue and pricing power and predatory practices affecting further undermining the external funding and support of Local Councils in such areas (Bojicic-Dzelilovic & Turkmani, 2018, p. 4-6). Finally, there were the local NGOs that established following the establishment of INGOs in the border areas and mainly functioned as their subcontractors. In general, local NGOs can be classified into those registered in neighbouring countries, representing the end part in the cross-border operations, and those operating inside Syria which representing around 20% of their overall number. The relations between local NGOs and Local Councils also varied on a case-by-case basis between complementary and competitive. Thus, the two actors may compete over donor funding in some areas while local NGOs may represent a source of funding for Local Councils in other areas (Gharibah et al, 2017, p. 13; Hearn & Dallal, 2019; Svoboda & Pantuliano, 2015, p. 10).

The various measures undertaken by international actors in compliance with overlapping systems of economic sanctions had several implications on the performance of local actors and compelled them, in turn, to undertake a series of adaptations. Beginning with donors, the total amount of humanitarian aid that opposition-held areas was low. Cross-border aid received only “a fraction of donor funds” (Leenders & Mansour, 2018, p. 248) given that donors’ preferred channel was through UN organisations, and, as mentioned, this channel was controlled by the Syrian government and only fraction of that aid reached opposition-held areas (Meininghaus, 2016, p. 1464). Even in the case of cross-border aid fund, the question of playing it safe created what Khalaf (2015) refers to as “top-down technocratic ‘institutionalisation’ process” (p. 53) in which the flow of funds was filtered down “to Syrian NGOs that are big, English speaking and institutionalised. Based outside Syria in Gaziantep or Lebanon, these NGOs are not necessarily linked to the ground” (Khalaf, 2015, p. 53). As for INGOs, Syria-related sanctions affected their ability to procure materials subject to export bans such as water pumps, fertilizers and pesticides and their affecting programs related to supporting agriculture and implementing water projects. These problems were further exacerbated by the counter terror sanctions which prohibited INGOs from financing petroleum products purchases from ISIL, the main sources of petroleum products in opposition-held area after 2014, and also led INGOs to avoid operations in areas controlled by blacklisted groups (Gordon et al, 2018, p. 17; Haid et al, 2017; Middleton et al., 2018, p. 30). Finally, economic sanctions affected financial transfers as international banks willing to ‘provide correspondent services’ to opposition-held areas were reduced to a handful of institutions. These institutions, in turn, tended to “demonstrate inconsistent behaviour” and abruptly “obstruct financial transactions” (Gordon et al., 2018, p. 7) while halting bank transfers altogether in “contested or besieged areas” (Gordon et al., 2018, p. 9) leading to unpredictability in NGO operations.

In response to the unpredictability in the behaviour of international correspondent banks, Syrian local actors opted towards limiting the size of their operations to avoid “complications in receiving larger transactions” (Gordon et al., 2018, p. 8), resorted to the informal financial market (the Hawala system) and relied on commodity based assistance (Gordon, et al., 2018, p. 18, 21). Overall, the various problems associated with external funding have rendered Local Councils to be in a chronic state of underfunding affecting their “capacity to deliver” and the “sustainability of operations and activities” (Gharibah et al., 2017, p. 15) and “impede[d] their ability to plan strategically beyond the ad-hoc provision of services” (Khalaf, 2015, p. 46). In turn, Local Councils resorted to armed groups for the funding of their operations leading to increasing dependencies on such factions (Abboud, 2016, p. 68-69; Hallaj, 2017, p. 21). This dependency was most nuanced in areas controlled by blacklisted factions such as Jabhet al-Nusra where the deliberate refraining from funding such areas facilitated the absorption of Local Councils to “their own administration bodies” (al-Zoubi et al., 2019, p. 23). Finally, the difficulties in procuring imports due to both export bans and financial sanctions led to excessive dependence on trade with Turkey as well as on intra-Syrian trade between the other Syrian statelets (Regime, PYD and ISIL). In the case of Turkish trade, the cash-based system, where the truck drivers are paid directly, led to avoiding financial transaction-related problems (Uras, 2013). On the other hand, intra-Syrian trade was carried out by a network of merchants residing in the different Syrian statelets while the role of the armed factions was restricted to imposing transit taxes. As such, many embargoed goods (fertilizers & pharmaceuticals) as well as ‘essential foodstuff not produced locally’, such as sugar and tea, were procured from regime-held areas while petroleum products were procured from ISIL areas (Kassah, 2016; Kassah, 2017).

Within this existing framework of ‘international-local governance’, the attempt to create national-level institutions and centralise the flow of funds, from one side, and the operation of local actors, from another, was carried out. As such, the SNCORF was created and offered sanctions exemptions to facilitate its mission. The appointment of the charismatic and eloquent cleric, Muaz al-Khateeb, as head of the SNCORF, revived hopes over the political opposition. However, the Khateeb euphoria proved to be short-lived as the different SNCORF factions quarrelled over the response to the January 2013 presidential initiative. Afterwards, the Syrian opposition reverted to its business-as-usual dysfunctionality and mimicked its predecessor in rivalries and divisions (ICG, 2013c, p. 21-22). These divisions were best manifested with the move towards creating the Syrian Interim Government (SIG), tasked with “providing on-the-ground services” (ICG, 2013c, p. 26), as Qatari-backed figures supporting the move amid the objections of Saudi-backed figures (ICG, 2013c, p. 21). These initial differences impeded the proper functioning of the SIG and made it solely reliant on Qatari funding and susceptible to its volatility (al-Zoubi et al., 2019, p. 29-30). The SIG “attempted to aggregate territorial control by establishing ministerial portfolios” in addition to establishing “governorate-level structures (governorate councils) to oversee the work of the local councils” (al-Zoubi et al., 2019, p. 9). Furthermore, it aimed at centralising incoming aid and the funding of Local Councils through

Assistance Coordinating Unit (ACU) and Local Assistance Coordination Unit (LACU) respectively (al-Zoubi et al., 2019, p. 9).

Nevertheless, the impact of the SIG was marginal at best. Several factors contributed to this outcome. Ministries were vulnerable to volatility in funding and could not meet their obligations towards local councils (al-Zoubi et al., 2019, p. 29). INGO programs undermined parallel ministerial efforts. For example, SIG's subsidised-priced seed distribution scheme was undermined by INGO's free-of-charge distribution scheme ("Zira'at suriyah: Qatirat," 2016). There were difficulties undermining the existing funding channels between international donors and local actors especially given the absence of coordination between the various donors. More importantly, the reputation of the different centralised institutions were undermined by allegations of "mismanagement of funds" (Svoboda & Pantuliano, 2015) creating a "legitimacy deficit" that was difficult to overcome (Khalaf, 2015, p. 51). As such, Local Councils remained nominally affiliated with the SIG while, overall, national-level institutions appeared as a marginal layer within the existing international-local system gaining relevancy in a few sectors such as education (Gharibeh et al., 2017, p. 22; al-Zoubi et al., 2019, p. 40-41).

The similar process applied to the military centralisation efforts as the Gulf official and private donors' provision of funds directly to armed groups, from one side, and the ability of the armed groups to raise their own funds domestically, from another, led to the undermining of the SMC with its role confined towards an arms distribution network (ICG, 2013c, p. 12-13, 17-18). The failure of the SMC implied that the Syrian opposition failed to benefit from the oil ban exemption as Jabhet al-Nusra consolidated its control over Syrian oil fields (Borger & Mahmood, 2013).

6.4.2.2 ISIL

As mentioned, providing social services was one of ISIL's key strategies in light of its self-identification as a state. Achieving this strategy had to be carried through the reliance on domestic resources given its external isolation. Therefore, as it initially infiltrated opposition-held areas, it deliberately sought to "control key industries and services related to electricity, water, fuel, and bread in order to assert total control over the core needs of the local population" (Martínez & Eng, 2017, p. 140). The group developed a special interest in the resource-rich eastern region and gradually exerting its control over that region and taking control over the opposition's newly developed informal oil trade. With the group's territorial consolidation and control over mid-sized cities a "full-fledged system of governance" (Weiss & Hassan, 2015, p. 223) was created. ISIL created two main sources of domestic revenue, oil trade and a taxation system which allowed it, in turn, to develop a security apparatus, a judicial system and a whole set of social services (Revkin, 2016, p. 9-14).

At its peak, oil production in ISIL-held territories was estimated between 40,000 and 50,000 bpd. ISIL's crude oil was rudimentarily processed creating ISIL-specific brands of diesel, benzene and gasoline (WBG, 2017, p. 57; Madi, 2019, p. 18). These oil products catered for several markets; the local market, the other Syrian markets and adjacent countries. Traders were lured by the

substantially below international prices; they purchased oil was from ISIL from the extraction site and undertook the task of transportation to different markets (Kiourktsoglou & Coutroubis, 2015, p. 3-4; Stergiou, 2016, p. 194). Specific deals emerged between ISIL and the Syrian government where the government was allowed to continue the operation of some of its oil and gas sites in ISIL-held territories and the flow of gas fields to power stations in regime held in return for either a fee or profit sharing (al-Munawary, 2015). On the other hand, ISIL developed a complex taxation system comprising of various taxes such as the religious tax of zakat for Muslims and the protection tax for non-Muslims, taxes on state employees, business activities, agriculture production), as well as customs duties on trucks entering ISIL territory, fees and financial penalties and revenue from predatory and criminal activities such as the resale of confiscated and looted goods, kidnap and ransom and antique trading (CAT, 2016, p. 15-20). In figures, ISIL raised around \$1bn in oil revenue and \$360M in taxation and other extortion measures in 2014 (CAT, 2016, p.9, 15).

The group's control of the country's three main dams allowed for the provision of sufficient amounts of clean water and electricity to its subjects (Stergiou, 2016, p. 195). Benefiting from abundance of wheat farming, the group intervened heavily in the bread supply chain in order to ensure affordable and sufficient provision of bread. Measures included export bans, wheat purchases from farmers, provision of subsidised flour to bakeries, renting out vacant land and even resorting to coercive measures to ensure the cultivation of wheat (Jaafar & Woertz, 2016, p. 15; Martínez & Eng, 2017, p. 140). Other products, not produced within the boundaries of the 'Caliphate', were procured either through the intra-Syrian trade network and through adjacent countries, Turkey and Iraqi Kurdistan, via smuggling networks. Trade between opposition-held areas and ISIS took an 'oil for food' pattern as ISIL exported its petroleum products and imported fruits and vegetables. Essential foodstuff, not produced in Syria, such as sugar, were procured through from regime areas through opposition-held areas (Kassah, 2017). Manufactured consumer products, such as transport vehicles, were procured from adjacent countries via smuggling networks smugglers while some medical supplies were procured through international aid groups ("Sayarat daesh Masduruha," 2016; Solomon, 2015).

The 'Restoration the Caliphate' declaration in the Summer of 2014, after its swift takeover of the Iraqi city of Mosul, was followed by the transformation of its military operations into a "three-front war" against the regimes in Iraq and Syria and the Kurdish front in both countries (Shapiro, 2016). At this stage, not only did ISIL emerge as the main military rival to the Syrian regime, but its system of governance allowed it to become the main rival to the Syrian regime in the 'competition for state re-formation' (Hinnebusch, 2018 p. 405-406; Khaddour, 2015, p. 3).

However, the dramatic expansion of the group and especially its military incursion to the Kurdish regions of Iraq stirred the creation of the US-led counter coalition. In addition to its commitment towards degrading the group's military capabilities, the coalition was also committed towards degrading its financial capabilities through bombing oil production facilities, oil tankers and targeting its financial accounts and transfers (Tabatabai & Esfandiary, 2017, p. 457; CAT, 2016, p. 10). This created an unsustainable situation financially as the escalation in its

war efforts was paralleled by a decline in its stream of revenues with harder choices needed to be made between channelling its dwindling revenue towards its military efforts or towards providing social services. By early 2015, the signs of deterioration became apparent as the bombing campaign resulted in a decrease in its revenue. Further measures exacerbated the declining trend such as the Iraqi government's decision to halt salary payment to civil servants residing in ISIL-held areas affecting one of its key tax bases. Countering the deterioration in revenue, ISIL resorted to two measures. The first measure was to compensate the decrease in revenue from oil trade through increased taxation. A comparison between the years of 2014 and 2015 illustrates that the decline in the oil revenue from \$1bn to \$600M was compensated by the increase in extortion revenue from \$360M to \$800M (CAT, 2016, p.9, 15). The second measure was to cut on public spending. Within this context, the price of bread was increased, the salaries of fighters were cut in half, electricity was provided for only a few hours per day and the support system to agriculture decayed (Jaafar & Woertz, 2016, p. 15-16; Paraszczuk, 2015; Solomon, 2015).

6.4.2.3 The Kurdish PYD

Even though the areas controlled by the PYD represented the country's bread basket and possessed a considerable share of its oil reserves (the Rmailan oil field); nevertheless, the region was impoverished, lacking the necessary infrastructure and industries (oil refineries, yarn processing) to process its abundant natural resources and its population was dependent on subsistence agriculture (Biehl, 2015; Cemgil & Hoffmann, 2016). To add to its economic malaise, the region transformed into an enclave cut off from the central authority in Damascus as the armed opposition, and later on ISIL, expanded in the eastern region with both sides continuously clashing over oil resources. Furthermore, the region faced a dual blockade from Turkey and its rival KRG in Iraq (Cemgil & Hoffmann, 2016). The cumulative impact of these factors was the feeble flow of humanitarian aid and operation of humanitarian organisations and the creation of shortages in basic necessities including medical supplies, petroleum products, clean water and electricity (Egret & Anderson, 2016; ICG, 2014b, P. 10). As such, the PYD faced the triple challenge of creating state institutions, military confrontation and economic management.

The PYD remained dependent on the Syrian regime for military and economic support. The Qamishli airport remained the only transportation route that linked the region with the central authorities in Damascus and through which military equipment and medical supplies were continuously supplied. State salaries were continued to be dispersed and both coordinated in matters of oil production, distribution and revenue sharing in relation to PYD-controlled oil fields (Sary, 2016, p. 16; Balanche, 2017). In addition to the reliance on the regime, the PYD ensured the flow of supplies through opening an alternative international trade route by capturing the 'Yaroubiyeh' border crossing point with the Iraqi central authorities (ICG, 2014b, p. 9).

The PYD created its separate institutions, including a nascent army (the YPG forces), its own police force (the Asayesh) and a judicial system (the People's Tribunals), assigned itself a quasi-state autonomous status while several central government institutions continued to function within its territories (Abdulla, 2014; ICG, 2014b, p. 13-14; Sary, 2016). It raised revenue from taxing intra-Syrian trade and from oil deals with the regime which, in turn, allowed the PYD to finance its military and administrative expenses and provide rations of subsidised bread. Furthermore, it encouraged the creation of cooperatives to provide support to agriculture (provision of inputs such as seeds) as well as encouraging farmers to shift from growing wheat towards vegetables to meet domestic demand. The alleviation of shortages in petroleum products was arranged through the collaboration of cooperatives and private companies that relied on rudimentary techniques for the production of diesel (Biehl, 2015; Cemgil & Hoffmann, 2016).

ISIL's 'Caliphate' declaration and its subsequent incursion in Kurdish-populated areas in both Syria and Iraq had several repercussions for the PYD. ISIL's advancement in the Kurdish town of Kobane in late 2014 created a marriage of convenience with the US with the latter providing aerial and logistic support to the YPG which, in return, fought ISIL even in areas outside its Kurdish constituency. PYD's ensuing territorial expansion allowed for the alleviation of shortages in electricity and water following the capture of key dams from ISIL. Furthermore, the KRG eased its blockade, with ISIL emerging as a common threat, to allow the passing of the humanitarian aid (Sary, 2016, p. 13).

Overall, the region suffered from continuous shortages in essential products, especially in items that cannot be produced locally (e.g. sugar and iron) and price hikes in basic food products occurred regularly. Furthermore, the heavy dependence on imports gave merchants the upper hand in the market indicating the limitations of the PYD's administrative capacity (Sary, 2016, p. 13)

6.5 The Outcome of the Second Period of the Sanctions Episode

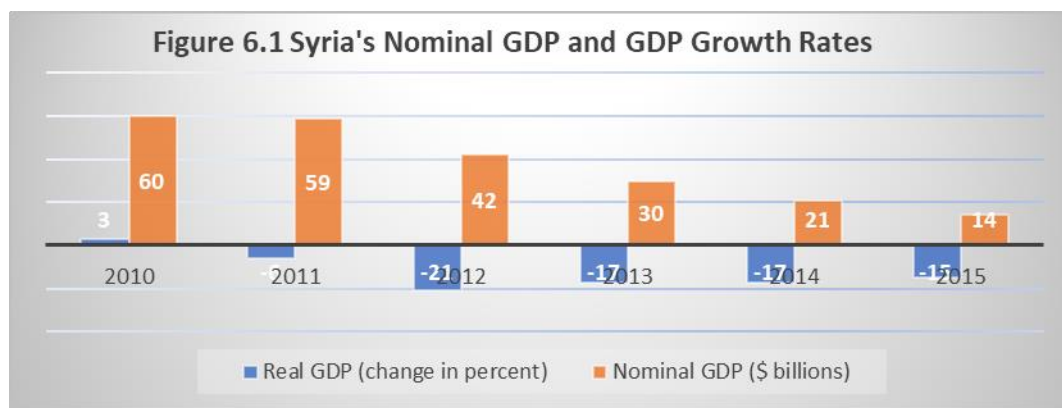
6.5.1 Pattern of integration with the global economy: The emergence of political and humanitarian foreign revenue sources

While the previous period relied on consuming the country's foreign exchange reserves following the evaporating of its foreign revenue sources, this period witnessed the emergence of several new sources of foreign revenue. These included humanitarian aid (Overseas Development Assistance), foreign 'soft' loans from political allies (the Iranian credit lines), military-related political rent from both regime allies and adversaries and finally the traditional role of expatriates in sending remittances was complemented by a new source of foreign revenue related to the consular fee. The emergence of these revenue sources took place at the time when Syria's foreign reserves was dwindling throughout the period with estimates that they have either "completely dried up" (Gobat & Kostial, 2016, p. 14) or that they have sunk below US\$1 billion (World Bank Group, 2017, p. 63). Syria's trade structure represented a

crystallisation of the previous period’s trend. Its exports continued to contract reaching below the US\$ 1 Billion level in 2015 and concentrated on Arab countries while its imports were concentrated on essential products covering essential foodstuff and pharmaceuticals with wheat and crude oil joining Syria’s import list (Gobat & Kostial, 2016, p. 14; Statistical Abstract, 2017; WBG, 2017, p. 62). In terms of trade partners, the emergence of Iran as a key import partner to regime-held areas and the resurgence of Turkey as a key import partner to opposition-held areas indicated the central role of political patrons in the country’s foreign trade. On the other hand, the intermediation in international transaction became divided between the international humanitarian organisations and regional import procurement networks and political allies whether Russia and Iran in the case of regime-held areas or Turkey in the case of opposition-held areas. In brief, the period witnessed a significant transformation in Syria’s pattern of integration with the global economy, in comparison with its pre-conflict’s pattern, in which Syria relied on external humanitarian and political rent to fund its imports of essential consumption products.

6.5.2 Domestic system of the political economy

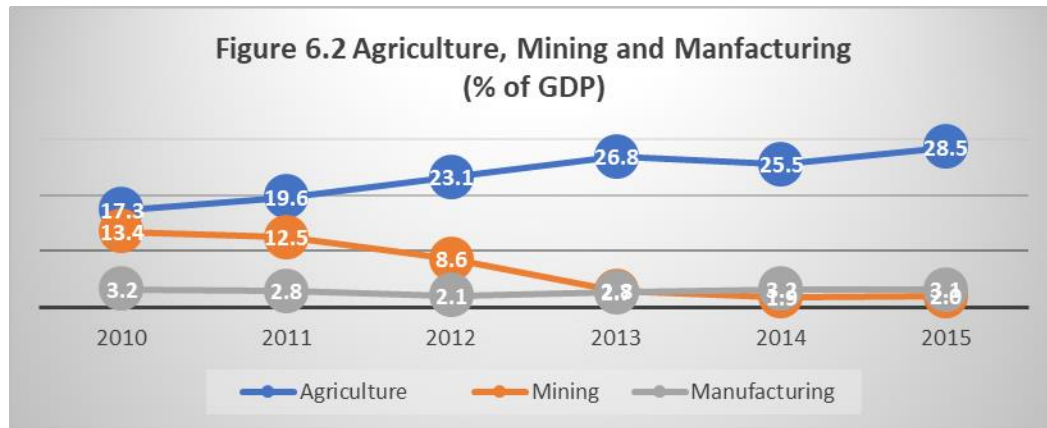
During this period (2013 -2016), Syria underwent a process of de-development with annual double-digit negative growth rates, destruction of its capital assets and infrastructure and the decrease in both its private and public levels of investment as its per-capita income level converged to the level of a Sub-Saharan African economy (Arslanian, 2016; SCPR, 2015).



Source: Gobat & Kostial, 2016; SCPR, 2016

The de-development process was manifested in the changes of the economy’s sectoral composition with the increase in the share of agriculture at the expense of its extractive and manufacturing industries (SCPR, 2016, p. 15). At the same time, agricultural production became more localised and subsistence oriented and rainfed-dependent (SCPR, 2019; FAO & WFP, 2015, p. 22). Along the de-development process, Syria underwent a process of de-population with its population decreasing from the 23 million to 18 million. Finally, there was a deterioration in the country’s Human Development Indicators with life expectancy dropped from 70.5 to 55.4 between 2010 and 2015, its rank in the education index “dropped from 124th to 173rd of 187

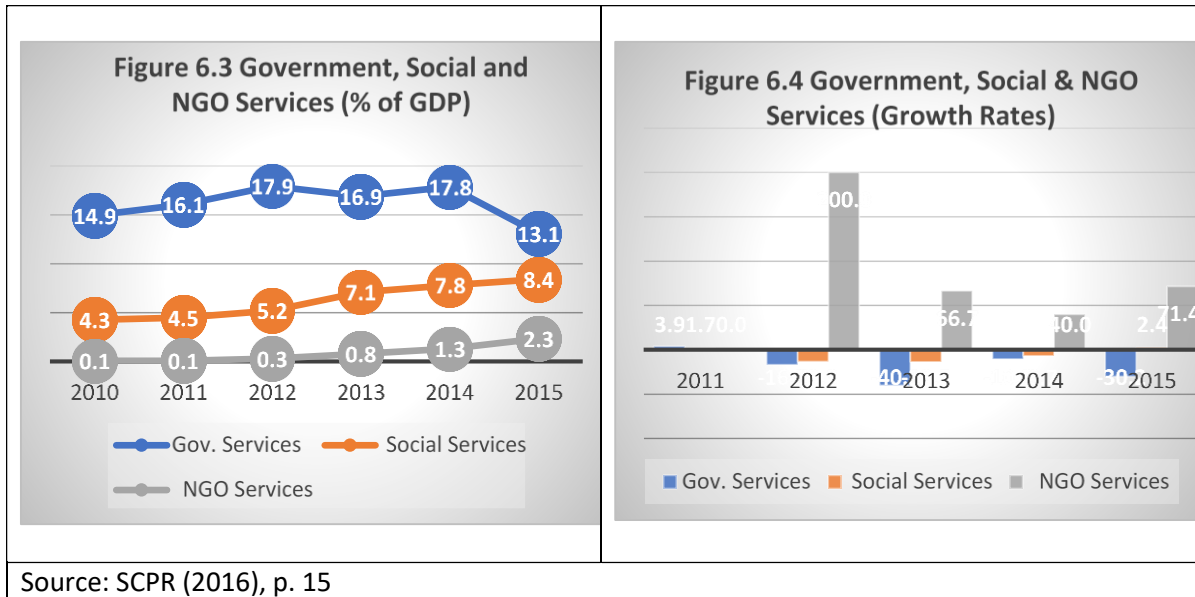
countries” (SCPR, 2016, p. 43) and the rate of those living abject poverty changing from a near absent level to around one-third of the population (SCPR, 2016, p. 47)



Source: SCPR (2016), p. 15

The country was also subject to the process of fragmentation and regional shifts with “four distinct areas stand[ing] out: areas controlled by the regime (between Damascus and the coastal areas); areas controlled by the Kurdish Democratic Union Party (PYD) in northeastern Syria near the Turkish-Syrian and Syrian-Iraqi borders; areas controlled by the Islamic State of Iraq and as-Sham (ISIS) in eastern Syria, mainly Raqqa, and southern and northwestern areas controlled by various rebel factions.” (Abboud, 2016, p. 58). Along the process of fragmentation, there was a process of intensification of “rural-urban migration”, mainly to regime-held areas, with urban population increasing from 56% to 72.6% (WBG, 2017, p. 21) and a shift in manufacturing activities, and economic activity in general, from their traditional bases in rural Damascus and Aleppo and Homs into safe areas in Damascus city and Sweida and the coastal region. On the other hand, the wheat and oil markets were fragmented between regime areas, relying mainly on wheat and crude oil imports, and non-regime areas illicitly exporting such products.

The economic role of the government also underwent a shift as it sought to maintain the levels of public employment while partially outsourced other social responsibilities, as evident in Figures 6.3 & 6.4, with the increase in the shares of NGOs and social services at the expense of government services.



Amid Syria’s economic transformation, a new of stratification emerged among Syria’s populist classes in which government employees and pensioners stood at the top of hierarchy followed by “borderline households” who were dependent on a combination of remittances, subsistence agriculture and casual labour. Finally, there were Syria’s “most vulnerable” who were aid dependent in addition to resorting to activities such as “street peddling and scavenging” (FAO & WFP, 2013, p. 30; FAO & WFP, 2015, p. 33-34). On the other hand, the new business opportunities arising from the conflict, whether through ‘conflict services’, humanitarian aid-related businesses or sanctions circumvention gave rise for “new patterns of stratification and factionalization” of the business class with the rise of a new business stratum “conflict elite” which was both “politically loyal and economically capable of addressing many of the economic needs of the conflict” (Abboud, 2017). Overall, the role of the business class shifted from its pre-conflict role in tertiary sectors, in alliance with gulf capital, towards a new role in essential procurement in what can be termed as the fourth reconfiguration of the Syrian business class.

6.5.4 The Intervening role of the sanctions episode in shaping the social contestation for state power

With the materialisation of the ‘cutting supply lines’ strategy, during the summer of 2013, the country’s capital was re-connected with the coastal region through country’s centre. In confluence of the operationalisation of the Iranian credit lines and the flow of UN humanitarian aid, a new adaptive economy emerged in regime-held areas creating a marginal revival of manufacturing and economic activity, averting a currency collapse and stabilising the foreign exchange and inflation rates. In metropolitan Damascus, the ‘cutting supply lines’ strategy developed into a besieging strategy where the “starvation until submission campaign” was initiated against opposition-held areas (Leenders & Mansour, 2018, p. 248). These sieges created uneasy relations between the armed factions and the local population as the former

were viewed as failing to “establish livable spaces” in contrast to the regime which would “bring life back to normalcy” (Meininghaus, 2016, p. 1467). By early 2014, this situation led to the eruption of protests in several besieged towns in Southern Damascus pressuring the armed factions to accept regime-conditioned national reconciliation agreements (Martínez & Eng, 2016, p. 169). The situation was different in northern Syria, as throughout 2013, the concentration of FSA factions on profiteering and their failure to deliver social services created a popular backlash allowing the more disciplined Islamist factions “to gain a foothold” and gradually dominate the armed opposition (Martínez & Eng, 2017, p. 139-140). Nevertheless, the Islamist governance experience in Aleppo would face the challenge of the regime’s extreme bombing campaign during late 2013 following its failure to advance into the Aleppo after managing to re-open supply routes (Khaddour, 2015, p. 9-10; Nassief, 2014, p. 35). The disparity in living standards between regime and opposition-held areas created favourable conditions for the Syrian regime. The initial insecurity-driven migration from opposition-held to regime-held areas transformed into a “needs-driven” migration given the better living conditions in regime-held areas, especially with the development of a complex network of humanitarian aid delivery (Martínez & Eng, 2016, p. 168). Meanwhile, the wave of defections from the Syrian regime towards the opposition had reached its limits, and by late 2013, reverse defections started to occur from the military opposition to the regime³² (Holliday, 2013, p. 145; Pleitgen, 2013; Zainedine, 2018).

Overall, the regime underwent a process of reconfiguration or re-assertion. The ruling Ba’th party experienced a “reshuffle” with most of its central committee members ousted and replaced by younger members mostly serving in the cabinet at the time. The ousting of the vice-President, Farouq al-Sharaa’, from the Party’s Central Committee was most notable representing the elimination of a prominent regime figure with reconciliatory attitudes towards the Syrian opposition (van Tets, 2014; McElroy, 2014). The military establishment was reconfigured to incorporate, institutionalise and subordinate local paramilitaries (Heydemann, 2013, p. 63-64; Khaddour, 2014). The process of replacement and re-stratification of the Syrian business class was reflected in its representative institutions with the renewal of representatives at Syria’s different Chambers of Commerce and Industry reflecting the newly emergent businessmen, from one side, and the old class who demonstrated its loyalty to the regime during the conflict from another (Yazigi, 2015; “Elections at Syria’s,” 2014; “Elections at chambers,” 2015). Regime reconfiguration culminated with the June 2014 Presidential elections. Although the elections were staged in an obvious manner, it nevertheless followed the new constitutional requirements of having more than a candidate with Assad ostensibly contesting power with two low-profile contestants, Maher Hajjar and Hassan al-Nouri. Despite its staged nature, the elections were highly significant in their demonstration of power with its accompanying parades and celebrations (Lund, 2014b). Regardless of the motivation for voting, the elections reflected “the forceful affirmation of Assad’s grip of power” and a confirmation

³² al-Jazeera’s high-level defection tracking interactive demonstrates that high-level defections utterly ceased after April 2013 (Atassi, 2012).

that the regime was there to stay (Sly & Haidamous, 2014)³³. This was contrasted to the situation in opposition-held areas as the creation of national-level institutions faltered, from one side, and the skirmishes with ISIL transformed into a full-fledged military confrontation by the onset of the year 2014. By the summer of 2014, the armed opposition lost its areas in the East to ISIL which, in turn, managed to consolidate and amalgamate its territories in both Syria and Iraq leading to the declaration of the 'Caliphate' and the launching of its "three-front war" (ICG, 2014a, p. 10; Lister, 2014, p. 14; Shapiro, 2016).

On the international level, an initial milestone in the regime's 'dissuasion of adversaries' policy was being materialised. A US-Russian rapprochement over Syria was realised in May 2013 as the two sides emphasised their commitment towards a diplomatic and political solution for the Syrian crisis after nearly a year of military confrontation following the Geneva communique. Several factors contributed to this rapprochement including the resilience of the Syrian regime, the failure of US measures to centralise military and political power within the Syrian opposition and the dominance of jihadist groups within the armed opposition (Arslanian, 2019, p. 290-291). The trend for international diplomatic solution accelerated following the September 2013 'Chemical Deal' as two international powers organised a peace conference 'Geneva 2' in January /February 2014 (Arslanian, 2019, p. 292). Nevertheless, diplomatic initiatives were abruptly aborted as the US-Russian tension over the Ukrainian crisis affected their understanding over Syria (Sly, 2014). In aftermath, the US changed its strategy as it launched the fourth phase of economic sanctions focus targeting Syria's import procurement networks and provided direct military support to armed factions in Southern Syria (Arslanian, 2019, p. 292-294). From the other hand, the US formed a counter ISIL coalition and began bombing ISIL in both Iraq and Syria. Contrary to the aspirations of the Syrian regime, the counter coalition did not contribute to a US-Syrian rapprochement as it remained excluded from the coalition. Alternatively, the US chose to collaborate with the Kurdish PYD and provide the group with logistic and aerial support in their confrontations with ISIL (Arslanian, 2019, p. 293-294).

From another side, regional adversaries unsatisfied with the US-Russian rapprochement increased their support to Islamist groups with the period following the chemical deal witnessed a series of armed factions' mergers (the Army of Islam in Eastern Ghouta, the Islamic Front in the north) which more explicitly challenged the fragile authorities of the SNCORF and SMC (Lister, 2016, p. 11-12; Szybala, 2014, p.31, 36)³⁴. This trend was intensified by the progress of US – Iranian negotiation towards a nuclear deal (Kirkpatrick, 2015; De Young & Sly, 2015 May). Furthermore, Saudi Arabia launched its oil price war against Iran throughout the second half of 2014 affecting its financial standing (Peters, 2014).

³³ These gestures were not only restricted to Syria but extended to neighbouring Lebanon as elections took place in a high turnout amid loyalist parades and chants leading to serious traffic congestions in Beirut (Sly & Haidamous, 2014).

³⁴ The SMC received its final blow in December 2013 with the Islamists' takeover of its 'logistics headquarter' near Baba al-Hawa border crossing with Turkey (Lister, 2016, p. 12; Szybala, 2014, p.31).

The renewed military support for the Syrian opposition and its advance in the country's peripheral regions, the end of the détente between the Syrian regime and ISIL after its 'Caliphate' declaration, the targeting of the sanctions'-circumventing import procurement networks and the disruption of the Iranian credit lines beginning in the second half of 2014 implied a series of military and economic setback. This situation disrupted the fragile stabilisation achieved in 2013, caused currency hikes, created a 2014/2015 winter fuel crisis and compelled the regime to curtail on subsidies. Throughout 2015, few sporadic protests emerged in loyalist areas against the deteriorating living conditions, nevertheless, these protests were apolitical in nature focusing solely on living conditions (al-Khalidi, 2015; "Hal tukhruju al-sweida," 2015).

Despite such protests, there was a general appreciation of the efforts the Syrian government had undertaken towards maintaining the basic standards of living in such "exceptional circumstances" and an awareness of their better living standards in comparison with the non-regime blocs (Martínez & Eng, 2017, p. 138). In comparison, the population in opposition-held areas, were mainly living off subsistence agriculture while only a few were able to benefit from the trickle-down effects of the war economy and other emerging business opportunities (Dzelilovic & Turkmani, 2018, p. 7-11). In ISIL-held territories, the initial 'winning of hearts and minds' had shifted towards frustration with group as the population were overburdened with heavy taxation, deterioration in services and lack of employment opportunities (Paraszczuk, 2015; Solomon, 2015). This "popular discontent... helped foster the formation of several militia brigades that have conducted clandestine attacks and assassination attempts against IS members" (Martínez & Eng, 2017, p. 141). In the Kurdish areas, the dependency of the Syrian regime and the recurrent shortages of basic necessities indicated the limitations of the PYD (Balanche, 2017; Khaddour, 2015, p. 12). This situation was coupled with the resort of the general population to political passivity - in a manner similar to what Jones (2015) discussed in the cases of Iraq and Myanmar – and, as such, desperation led to joining the wave of refugees instead of undertaking political action. Furthermore, the Jihadist nature of the opposition implied that dissent won't be translated into shifting sides. As such, these sporadic protests lacked the capacity to escalate into mass protests that would threaten the regime's hold on power. Therefore, the military expansion of the opposition in the south reached its limits as it faced severe popular resistance in its attempts to advance in Druze-populated areas, from one side, and the administrative centres of the south amid fierce opposition from IDPs originating from opposition sympathetic areas (Khaddour, 2015, p. 5; al-Shoufi, 2015). Thus, by the summer of 2015, the Syrian regime succeeded in halting the opposition's advance, yet it failed to shift from a defensive towards an offensive position.

In trying to unravel the military stalemate, a new wave of international diplomacy was ushered; this time Russia and Iran reached out to Gulf adversaries rather than western powers (Ashkar, 2015; Kendall, 2015). Nevertheless, the failure to bridge the gap between the two sides compelled the regime's two allies to coordinate activities towards a more direct intervention in Syria to change the situation on the ground. The military involvement entailed introducing

Russian airpower while increasing Iranian ground forces (Bassam & Perry, 2015 October; Vela, 2015). The dual Russian-Iranian intervention began in September 2015 and was able to shift the Syrian military from a defensive towards an offensive position. However, the advance on the grounds did not result in significant changes in control as the increase in the shipment of weapons to rebel groups, most notably the anti-tank TOW missiles, succeeded in halting the advance of the Syrian military (Bassam, & Perry, 2015 November; Entous, 2015). On the other hand, there was a renewed diplomatic interest from western countries alarmed by the wave of Syria refugees flowing into Europe. This renewed diplomatic interest was translated into a series of meetings between international and regional stakeholders and a short-lived cease fire “Cessation of Hostilities” in February 2016 which lasted for nearly two months (“Nations find common,” 2015; “Russia, US, Turkey,” 2015; Black & Shaheen, 2016). Nevertheless, it was the Turkish turn in the summer of 2016, - in light of the expansion of the Kurdish PYD and its control of most the border areas between Syria and Turkey - that allowed for changing the situation on the ground. The Turkish turn resulted in a tacit agreement between Turkey and the regime’s allies, Russia and Iran, in which Turkey halts its support to the armed opposition in Aleppo, allowing the Syrian army to fully capture the city in return for its military advancement in ISIL-held territories in northern Syria as a means of halting the advance of the PYD (Bassam et al., 2016; “Iran and Turkey agree,” 2016; Shaheen, 2016). As such, an advance in the realisation of the ‘Dissuasion of Adversaries’ policy enabled the further realisation of ‘preserving urban spine’ strategy through regaining control over the city of Aleppo followed by tightening its siege over opposition held-territories in metropolitan Damascus.

6.6 Conclusion: The Interaction of international and domestic factors in the second period of the sanctions episode (2013 -2016)

Through the ‘competition for state re-formation’ among the warring Syrian blocs, the Syrian regime emerged as the main bloc that managed to cater for the welfare of its citizens. This was achieved through pursuing an ‘exclusivist neo-patrimonial strategy’ that focused on rewarding its core constituencies while punishing its adversaries which, in turn, led to the creation of significant disparities in the standard of livings among Syria’s warring blocs. The sanctions episode represented a secondary factor in shaping the outcome while regime strategies of preserving its ‘urban spine’, disrupting the opposition’s governance capabilities and moving towards outright besiege of some opposition-held areas played a major role in creating this disparity. Within the second period of the sanctions episode, the regime’s counter-sanctions strategy can be summarised as procuring sufficient foreign revenue and circumventing transaction-impeding sanctions in order to procure necessary imports to meet its populist commitments. Within this context, the two main international factors that played a significant role towards achieving regime strategies were the Iranian credit lines and the role of humanitarian organisations as both contributed to circumventing transaction-impeding sanctions and procuring the required imports and, thus, countering the over-compliance trend of companies. Another contribution of economic sanctions was related to the overlap between country-level sanctions and counter-terrorist sanctions in opposition-held areas which further

complicated international economic transactions and created a situation of over-compliance among organisations, companies and financial institutions at a time when these areas were highly dependent on external finance and humanitarian assistance for the basic service provision.

Ch.7 Conclusion

7.1 Summary & Findings

This thesis attempted to bridge the gap in the literature on sanctions outcome between frameworks that address the role of international factors such as third country sanctions busting and sanctions enforcement by the sender country and between frameworks that address the target country-level factors that stress the role of the country's political economy, political structure and the role of domestic actors' strategic response to the sanctions episode.

Therefore, the thesis developed a theoretical framework that integrates the international environment pertinent to the sanctions episode with domestic dynamics of the sanctions episode within the target country and argued that complex interaction between international factors and domestic actors' strategic response to sanctions reshapes the target's pattern of integration in the global economy and consequently its domestic system of political economy. This reshaped political economy represents a new platform for the social contestation for state power which affects both the regime's and the opposition's coalition building strategies, their effectiveness and the response of key social groups to these strategies. The theoretical framework was operationalised for empirical testing through applying a process tracing methodology where each causal mechanism was theorised and designated with a specific entity and activity.

The framework investigated the on-going case of EU and US sanctions on the Syrian Arab Republic as a plausibility probe to test and refine the theoretical framework. The empirical examination covered the timeframe (2011 – 2016) and distinguished between two periods: The first period (2011 -2012) covered the early phase of the Syrian uprising where the social contestation for state power was escalating from popular protest towards military escalation and the second period (2013 – 2016) covered the phase where the Syrian conflict had escalated to a full-scale military confrontation and its economic and political repercussions had been materialised.

The empirical investigation of case study began with examining the three inter-related outcome variables prior to the sanction episode (or prior to the intervention of the dependent variable). It argued that Syria's domestic system of political economy, prior to the sanctions episode, can be categorised as two-stage process of transition from a PA towards a PPA system with its second stage leading towards a more typical form of PPA. While the original PA system implied a two-fold strategy which co-opted its populist classes as well as segments of its business class, the two-stage process of transition tilted the balance towards the business class, headed by regime cronies, and partially renegaded its original populist social contract. As for the country's pattern of integration in the global economy, the transition was associated with its shift from a protected economy, with a concentration on oil exports to the EU, towards an economy that is integrated regionally through tourism, manufacturing exports and FDI inflows. However, the modification of the regime's coalition created favorable conditions for a rural backlash against

the populist rollback and the emergence of an opposition coalition of various groups adversely affected by the changes in the political economy. The Arab Spring would allow for the materialisation of such as a coalition and a serious social contestation for state power would arise of which the current episode economic sanctions aimed at influencing.

This was followed by examining the sanctions regime. The sanctioning coalition comprised of Western and regional countries and organisations headed by the US and the EU with other Western countries (Canada, Australia, Norway, Switzerland and Japan) and regional players (Arab League and Turkey) representing the coalition's secondary senders. The applied measures covered targeted sanctions on individuals and entities, selective import and export restrictions and a variety of financial and service-related sanctions with the oil import ban representing the hallmark of the episode. As such, the Syrian oil & gas sector, the financial sector and the public sector represented the main economic sectors targeted by the sanctions regime while the Syria's repressive apparatus, its political establishment, regime cronies and the presidential family represented the main targeted institutions and social groups. The sanctions regime was periodised into four main phases with the second phase (August 2011 to August 2012) representing the turning point in the sanctions regime as it shifted from targeted personal sanctions on high level officials and regime figures towards more comprehensive forms of sanctions.

Afterwards, the empirical investigation examined each period of the sanctions episode separately where each part of the hypothesised causal mechanism was assessed and the main findings are discussed as follows:

International factors (N.1)

The Sender Country (N.1.1)

The theoretical framework predicted that the Sender Country's (N.1.1) sanctions implementation is a result of the interaction between state and non-state actors and is determined by the state's competence in detecting the violation, its willingness to enforce the sanctions regime and the effectiveness of its enforcement measures, from one side, and the commercial interests of non-state actors in violating the sanctions regime, from another.

While the empirical investigation found evidence that sanctions implementation is the result of such interaction, it found that it takes place within a wider internationalised context where the US monitoring system acts as an over-arching system that overviews implementation in other sender countries and shapes the behavior of both state and non-state actors. The case of US threats towards Maltese and Cypriot ships associated with the Iranian sanctions busting network and the interference of the Maltese and Cypriote authorities following such threats exemplifies how such a complex interaction takes place. Overall, the empirical investigation of the Syrian case illustrated that the combination of the complexity in navigating the sanctions regime and the presence of the over-arching US monitoring and enforcement system had led to over-compliance from senders' non-state actors in many aspects of sanctions implementation.

Furthermore, the empirical examination of the Syrian case has illustrated that there exists different levels of sanctions implementation according to different types of economic sanctions. The most notable contrast is between the strict cessation of economic engagement in the Syrian oil sector and the failure of the sanctioning authorities to detect and freeze the Syria's financial assets.

Third countries (N.1.2)

The predicted theorised mechanism argued that the third countries response is the result of the interaction of its state and non-state entities and varies along a spectrum between joining the sanctions regime and sanctions busting. Trade-based sanctions busting will occur if it is profitable for non-state actors to do so while the political interest/disinterest of the third country state affects the level of sanctions busting. Aid-based sanctions busting will only occur with the combination of three conditions: the third country state possesses a political interest for sanctions busting, can afford to provide aid and trade-based sanctions busting is unprofitable.

Similar to the case of senders' interaction, the level and type of sanctions busting proved to be more complex. Similar to the case of sender countries, the interaction of state and non-state actors in third countries proved to be more complex. To begin with, sanctions busting was not merely shaped by the interaction of non-state actors' commercial interests with the state's political interests but was also shaped by the threat of the US's secondary sanctions. This was most evident in the case of Russia's first tier banks which halted their financial dealings with the Syrian government in early 2013 following the US threat of cutting them off from the international financial system. Other aspects were related to the sanctions busting of the third country state. Third country states did not represent a unitary actor but the sanctions busting process was rather shaped by the bureaucratic politics among the state's different departments. This phenomenon was manifested both in Iran and Russia where the interest of the military establishment in increasing the levels of sanctions busting was countered by the influence of other state departments. Furthermore, the role of the state in sanctions busting was not restricted to either aid-based sanctions busting or providing incentives to its non-state actors, but the state itself resorted to trade-based sanctions busting through its SOEs.

In the case of Russia, the combination of intra-governmental bureaucratic politics and the threat of US secondary sanctions implied that the level of sanctions busting was lower than the level predicted by the simple interaction between state and non-state actors. In the case of Iran's aid-based sanctions busting, although it has followed the three conditions predicted by the theoretical framework it is important to note that aid-based sanctions busting itself had the impact of creating trade-based sanctions busting for Iranian commercial companies.

Viewing third countries' reaction to the sanctions episode as a full spectrum that ranges between sanctions busting and cooperation with the sender highlighted the important role of passive supporters to the sanctions regime, as manifested in the case of India, with its refusal to import Syria's surplus oil. However, contrary to the predicted mechanism, the lack of political

interest from the Indian state resulted in terminating the potential for trade-based sanctions busting giving the central role of the Indian state in providing insurance guarantees for the proposed oil shipments. The case of some Arab Countries (Lebanon, Iraq and the UAE), members of the Arab League, represents the case of secondary senders who not only did not enforce the sanctions regime but also became important sanctions busters. In each case, sanctions busting was the result of the interaction of the state's political interests and the commercial interests of its non-state actors.

N.2 Domestic Level: (Regime N.2.1, Opposition N.2.2; Key social groups N.2.3, N.2.4)

While the predicted mechanism related the success/failure of domestic actors' strategies to be facilitated /constrained by international factors, the empirical investigation of the case of Syria reveals that each of the regime's counter sanctions sub-strategies is facilitated/constrained by the combination of several international factors of each of type of economic sanctions. The success / failure of the regime in its counter-sanctions strategy in turn determines the success/failure of implementing its coalition building strategies. In the first period of the case study, Syria's failure to re-orient its oil exports (Third countries' passive support to the sanctions regime) was compensated by its ability to retrieve most of its foreign assets (weakness of the monitoring system). The resultant confined reliance on one source of foreign exchange – and in combination with the over compliance of western companies and financial institutions and the sanctions busting from political allies and regional countries – allowed for a restricted ability to procure imports which in turn allowed for the constrained continuation of the policy of consumption subsidisation and of meeting populist commitments. The new foreign exchange resources (humanitarian aid, credit lines, consular fees etc...) that emerged during the second period allowed for the continuation of importing necessities and reinforced the public sector's role in retail trade and therefore facilitated the regime's ability to meet populist commitments in its exclusivist form while simultaneously controlling the business class through allocating import and humanitarian aid contracts according to loyalty.

As for the opposition, the main impact of international factors on its strategies was related to the overlapping of the two sanctions regimes and the resultant over compliance from international banks and firms which represented one of the factors that adversely affected the opposition's governance capacity and thus failing the challenge of 'replacing the state'.

In terms of Syria's business class, it is important to note that while the original wave of targeted sanctions on Syria's business personal was successful in achieving the dissociation of some blacklisted figures from the regime (Ghreiouati & Anbouba) - as well as induce a general dissociation among others in fear of being blacklisted -, the ability of several business personal and entities, during the second period, to be delisted from EU sanctions through the judicial appeals mitigated the incentive to dissociate themselves from the regime. Furthermore, the targeted sanctions on businessmen contributed to the elevation of non-sanctioned businessmen in the Syrian business hierarchy either as middlemen to the blacklisted regime cronies or as new ones and, as such, contributed to the reconfiguration of the Syrian business class.

The Outcome of the sanctions episode: The pattern of integration with the global economy (Y.1.1), the domestic system of the political economy (Y.1.2) and the social contestation for state power (Y.2)

The theoretical framework related the outcome of the sanctions episode to the interaction of the reshaped domestic system of political economy and the nature of the political opposition. The maintenance of the existing system of political economy and/or the existence of a weak opposition, or an opposition weakened by sanctions, reduce(s) the possibility of sanctions success given that regime coalition building strategies are more likely to be maintained.

In both periods, the country's political economy was narrowly maintained and the opposition coalition was characterised by fragmentation, dysfunctionality and radicalisation contributing to the failure of the sanctions episode in achieving regime change. In the first period, the country's political economy was precariously preserved through tapping to its contingency accumulated rent following the evaporation of its sources of foreign revenue from hydrocarbon rent and regional capital and income flows which in turn prevented a wider populist backlash and kept the business class in check. This was solidified by the different weaknesses plaguing the Syrian opposition which mitigated its appeal. In the second period, the narrowed and exclusivist maintenance of the political economy was managed through the emergence of new sources of humanitarian and political rent that preserved the dependencies of both classes on the regime. This, in turn, allowed the Syrian regime to win 'the contestation for state reformation' vis-à-vis the Syrian opposition and other emergent political blocs.

The partial erosion of system with the increasing deterioration of economic conditions and the shift towards subsidy rationalisation, from the second half of 2014 onwards, were associated with al-Qaida-associated groups dominating the military opposition scene. Even though such groups were organisationally competent, their radical ideology not only deterred their ability to mobilise significant segments of the Syrian society but enhanced the appeal of the Syrian regime and not to mention their own division between al-Nusra Front and ISIL which formed a political block on its own.

To conclude, through applying the Syrian case as a plausibility probe to test the relevance of the proposed theoretical framework, the framework possesses sufficient explanatory power for explaining the outcome of sanctions episode. Nevertheless, the framework can be refined in several areas. The international environment tends to be less favorable to the target state than that predicted by the framework since the US over-arching monitoring system and its resort to secondary sanctions create an environment of over-compliance among non-state actors in sender countries and deter non-state actors in third countries from exploiting sanctions busting opportunities. Furthermore, bureaucratic politics within third country states in political alliance with the target mitigate the level of aid-based sanctions busting predicted by the framework. While the framework assumed a simplistic interaction between international factors and target actors' domestic strategies, the case illustrated how the interaction takes place between international factors related to each type of economic sanctions and the sub-strategies at the

target level indicating that different target-level sub-strategies have varying levels of success and failure.

7.2 Generalisation from the case study

As mentioned in the methodological framework in Chapter Two, generalisation from a single case study relies on Blatter’s (2012) “possibilistic generalisation” which involves identifying “the configurations of conditions and/or mechanisms that the researcher identifies as necessary and sufficient for an outcome” (p. 9). In order to simplify the process and reduce the quantity of potential configurations, the possible combinations will be based on simplified assumptions. The two international entities will be restricted to the state level. The sender can either implement sanctions that have high or low costs to the target’s economy with all factors related to the sender (sanctions design, enforcement and compliance) embedded in the cost factors whereas the third country can either co-operate with the sender or contribute to sanctions busting. The combination of these different possibilities creates three possibilities for the international environment: favorable (low costs/buster), unfavorable (high costs/cooperation) and mixed environment (low costs/cooperation – high costs/busting) for the target country. The conditions of the international environment affect the target’s capacity to maintain its system of political economy. Finally, the strength of the target’s opposition determines whether it can capitalise on the failure of the target regime to maintain its system of political economy.

Sender	Third Country	International Environment	Target’s Political Economy	Opposition Strength	Sanctions outcome
Low costs	Buster	Favorable	Maintained	Weak	Failure
Low costs	Buster	Favorable	Maintained	Strong	Failure
High costs	Co-operate	Unfavorable	Collapse	Weak	Failure
Low costs	Co-operate	Unfavorable	Collapse	Strong	Success
High costs	Buster	Mixed	Partial Maintenance/ New system	Weak	Failure
High costs	Buster	Mixed	Partial Maintenance/ New system	Strong	Potential Success
Low costs	Co-operate	Mixed	Partial Maintenance	Weak	Failure
Low costs	Co-operate	Mixed	Partial Maintenance	Strong	Potential success

Within this set of potential configurations, sanctions are most likely to succeed with the combination of an unfavorable international environment and a strong opposition given that the opposition has the ability to capitalise on the regime’s failure to maintain its political economy, broaden its coalition and achieving regime change. In the case of a configuration of mixed international environment and strong opposition, the target regime’s partial maintenance of the system might facilitate the opposition’s capacity to take power. Nevertheless, this does not apply that opposition strength represents a sufficient condition for determining sanctions outcome given that the opposition might fail to mobilise the target’s social forces if the target’s political economy is maintained due to favorable conditions.

7.3 Recommendations for further research

Following from Blatter's (2012) argument that the initial investigation of the 'strong case' ought to be followed by investigating "the relevance of specific factors that have been identified as necessary for the outcome in the first study" (Blatter, 2012, p. 6-7). Accordingly, two main factors necessary for the outcome can be further addressed: the role of international factors and the strength of the opposition.

The further examination of the Syrian case through addressing the third phase of the Syrian conflict (2017 on-going) could highlight the role of the change in the international environment on the outcome of the sanctions episode. The main change in the international environment is related to the generalisation of secondary sanctions by the US through its resort to various threatening measures and legislation, most notably the Caesar Act. As such, the investigation will examine how generalisation of secondary sanctions affects third countries' response and consequently how they contribute towards tarnishing the regime's post conflict re-integration strategies.

The other critical factor, the strength of the target's opposition, can further be investigated. To begin with, it is necessary to better theorise the concept of opposition and how the sanctions episode may affect its strength. Afterwards, a multiple case study with cases varying in the levels of opposition strength and outcome may be addressed such as comparing the cases of Libya, Venezuela and Zimbabwe.

Finally, as the developed theoretical framework is restricted to sanctions episodes where the main objective is related to regime change, it is necessary to move beyond the issue of regime change to other issues such as the issue of nuclear proliferation. This requires a better understanding of the target's foreign policy decision making process and how it is linked to the country's political economy and its domestic political dynamics.

7.4 Policy implications

Reconsidering the humanitarian impact of economic sanctions

The Syrian case highlights an existing sanctioning trend which can be characterised as the "comprehensivisation of targeted sanctions" (Mallard et al., 2020, p. 123). This trend reflects the growing complexity of the sanctions regime as it combines several types of economic sanctions including innovative financial and services sanctions, partial embargoes and secondary sanctions with its implications on non-state actors' over-compliance and failure to activate the humanitarian exemptions. This new trend necessitates re-examining the humanitarian impact of economic sanctions which was the original intention behind the adoption of targeted sanctions as an alternative to comprehensive sanctions. One of the main obstacles towards such reconsideration is the deliberate attempt by OFAC to keep legislation on exemptions vague and ensure the persistence of the status of companies' over-compliance (Geranmayeh & Rapnouil, 2019, p. 3).

Secondary sanctions and the impact on international and regional economic systems

As the US exploits its financial hegemonic position to pursue its 'generalisation of secondary sanctions' strategy, the future of US global financial leadership and that of the US Dollar as the global reserve currency is put into question. The question of whether some sort of "financial balancing" and "politically motivated diversification" (Drezner, 2015, p. 761) may take place among rival powers. While this strategy may not trigger such diversification in the case of countries with insignificant weight in the global economy such as Syria or even Iran, the problem may arise if secondary sanctions are applied on countries such as Russia and China.

Improving sanctions policymaking process

With regards to case selection, the imposition of economic sanctions should be applied only in cases where a strong opposition movement already exists within the target country which can utilise the sanctions episode to create change in the desired direction of the senders. Furthermore, sanctions design should be improved through relying on theoretical frameworks such as the proposed framework in order to examine the projected political and economic impact of sanctions.

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Appendices

Appendix 1: The Syrian Repressive Apparatus

Security Services

Name	Post	US Sanctions	EU Sanctions
The General Intelligence Directorate		29.04.2011	23.08.2011
Ali Mamlouk	Head of General Intelligence Service; Head of Syrian Intelligence	29.04.2011	09.05.2011
Hafez Makhlouf	Head of Unit in General Intelligence Directorate, Damascus Branch	05.11.2007	09.05.2011
Ghassan KHALIL	Brigadier-General Head of General Intelligence Directorate's (GID) Information Branch		23.08.2011
Zuhair HAMAD	Major General, Deputy Head of General Intelligence Directorate		14.11.2011
General Nazih	General, Deputy Director of General Intelligence Directorate.		14.11.2011
Ahmed Dibe	Head of Deraa Regional Branch (General Security Directorate)		23.01.2012
Khudr Khudr	Brigadier General, Head of the Latakia branch of the General Intelligence Directorate		24.7.2012
Ibrahim Ma'ala	Brigadier General, Head of branch 285 (Damascus) of the General Intelligence Directorate		24.7.2012
Brigadier General Firas Al-Hamed	Head of branch 318 (Homs) of the General Intelligence Directorate		24.7.2012
Ahmed al-Jarroucheh	Head of the foreign branch of General Intelligence (branch 279)		24.7.2012
Michel Kassouha	Responsible for public relations of branch 273 of the Syrian General Intelligence Directorate.		24.7.2012
Mohammed Ali Nasr	General, the internal branch (or branch 251) of the General Intelligence Directorate		24.7.2012

Name	Post	US Sanctions	EU Sanctions
Syrian Political Intelligence			23.08.2011
Atef Najib	Former Head of Political Security in Deraa	29.04.2011	09.05.2011
Mohammed Dib Zeitoun	Head of Political Security	18.05.2011	09.05.2011
Amjad Al-Abbas	Head of Political Security in Banias	18.05.2011	09.05.2011
Muhamamd Al-Shaar	Political Security Division		01.12.2011
Khald Al-Taweel	Political Security Division		01.12.2011
Ghiath Fayad	Political Security Division		01.12.2011
Makhmoud al-Khattib	Head of Investigative Branch (Political Security Directorate)		23.01.2012
Mohamed Heikmat Ibrahim	Head of Operations Branch (Political Security Directorate)		23.01.2012
Nasser Al-Ali	Head of Deraa Regional Branch (Political Security Directorate)		23.01.2012
Hussam Luqa	Brigadier General, head of the Homs branch of the Political Security Directorate		24.07.2012
General Taha Taha	Brigadier, Site manager of the Latakia branch of the Political Security Directorate		24.07.2012
General Nasr al-Ali	Brigadier, manager of the Deraa site of the Political Security Directorate Since April 2012		24.07.2012

Name	Post	US Sanctions	EU Sanctions
Syrian Air Force Intelligence		18.05.2011	23.08.2011
Jamil Hassan	Head of Syrian Air Force Intelligence	29.06.2011	09.05.2011
Fu'ad TAWIL	Major General, Deputy head Syrian Air Force Intelligence		14.11.2011
Nazih Hassun	Brigadier, Syrian Air Force Intelligence.		01.12.2011
Abdul Salam Fajr Mahmoud	Brigadier General, Head of the Bab Tuma (Damascus) Branch of the air force's intelligence service		24.7.2012
Jawdat al-Ahmed	Brigadier General, Head of the Homs Branch of the air force's intelligence service		24.7.2012
Qusay Mihoub	Colonel, Head of the Deraa branch of the air force's intelligence service	16.10.2014	24.7.2012
Suhail Al-Abdullah	Colonel, Head of the Latakia Branch of the air force's intelligence service		24.7.2012
Ghassan Jaoudat Ismail	General, Responsible for the missions branch of the air force intelligence service		24.7.2012
Amer al-Achi	General, head of the intelligence branch of the air force intelligence service (since 2012)		24.7.2012
Adib Salameh	Major General, Deputy Director of Air Force Intelligence Directorate in Damascus		21.10.2016

Name	Post	US Sanctions	EU Sanctions
Syrian Military Intelligence		18.05.2011	23.08.2011
Abd Al-Fatah Qudsiyah	Head of Syrian Military Intelligence	18.05.2011	09.05.2011
Rustum Ghazali	Head of Syrian Military Intelligence, Damascus Countryside Branch	30.06.2005	09.05.2011
Rafiq SHAHADAH	Head of Syrian Military Intelligence (SMI) Branch 293 (Internal Affairs) in Damascus		23.08.2011
JAMEA JAMEA	Branch Chief for Syrian Military Intelligence (SMI) in Dayr az-Zor	15.08.2006	23.08.2011
Nawful AL-HUSAYN	Brigadier-General Idlib Syrian Military Intelligence (SMI) Branch Chief		23.08.2011
Muhammed ZAMRINI	Brigadier-General Branch Chief for Syrian Military Intelligence (SMI) in Homs.		23.08.2011
Lu'ai AL-ALI	Colonel, Head of Syrian Military Intelligence, Dera'a Branch		14.11.2011
Wafiq Nasser	Head of Suwayda Regional Branch (Department of Military Intelligence)		23.01.2012
Sha'afiq Masa	Brigadier General, Head of Branch 215 (Damascus) of the army's intelligence service.		24.7.2012
Burhan Qadour	Brigadier General, Head of Branch 291 (Damascus) of the army's intelligence service		24.7.2012
Salah Hamad	Brigadier General, Deputy Head of Branch 291 of the army's intelligence service		24.7.2012
Muhammad Khallouf	Brigadier General, Head of Branch 235, a.k.a. "Palestine" (Damascus) of the army's intelligence service		24.7.2012
Riad al-Ahmed	Major General, Deputy Head of Latakia Branch of the army's intelligence service		24.7.2012
Muhammad al-Mahalla	General, Head of the internal affairs branch of Syrian Military Intelligence		19.05.2015

Syria's Repressive Apparatus/The Military Establishment

Military Establishment			
Name	Post	US Sanctions	EU Sanctions
Ministry of Defence			25.06.2012
Maher Al-Assad	Commander of the army's 4th Division, strongman of the Republican Guard	29.04.2011	09.05.2011
Asif Shawkat	Deputy Chief of Staff for Security and Reconnaissance	18.01.2006	23.05.2011
Riyad Shalish	Military Housing		23.06.2011
Hayel AL-ASSAD	Head of the military police unit of the army's 4th Division		23.08.2011
Ali AL-SALIM	Director of the supplies office of the Syrian Ministry of Defence		23.08.2011
Munir ADANOV	Lieutenant-General Deputy Chief of General Staff, Operations and Training for Syrian Army.	30.03.2012	23.08.2011
Dawood Rajiha	Minister of Defense	30.03.2012	23.05.2011
Jumah AL-AHMAD	Major General, Commander Special Forces.		14.11.2011
Ali Abdullah AYYUB	Lt. General Deputy Chief of General Staff (Personnel and Manpower)		14.11.2011
Jasim AL-FURAY	Chief of General staff		14.11.2011
Aous ASLAN	Head of Battalion in the Republican Guard		14.11.2011
Ghassan BELAL	General in command of the 4th Division reserve bureau.		14.11.2011
Kifah MOULHEM	Batallion Commander in the 4th Division		14.11.2011
Wajih MAHMUD	Major General Commander 18th Armoured Division		14.11.2011
Tala Mustafa TLASS	Lt. General Deputy Chief of General Staff (Logistics and supplies)		14.11.2011
Fahid Al-Jassim	Chief of Staff. Military official involved in the violence in Homs		01.12.2011
Ibrahim Al-Hassan	Major General Deputy Chief of Staff. Military official involved in the violence in Homs		01.12.2011
Khalil Zghraybih	Brigadier 14th Division.		01.12.2011
Ali Barakat	Brigadier 103rd Brigade of the Republican Guard Division.		01.12.2011
Talal MakhluF	103rd Brigade of the Republican Guard Division		01.12.2011
Maan Jdiid	Presidential Guard		01.12.2011
Jawdat Ibrahim Safi	Brigadier General Commander of 154th Regiment		23.01.2012

Muhammad Ali Durgham	Major General Commander in 4th Division		23.01.2012
Ramadan Mahmoud Ramadan	Major General Commander of 35th Special Forces Regiment		23.01.2012
Ahmed Yousef Jarad	Brigadier General ACommander of 132nd Brigade		23.01.2012
Naim Jasem Suleiman	Major General Commander of the 3rd Division		23.01.2012
Jihad Mohamed Sultan	Brigadier General Commander of 65th Brigade		23.01.2012
Fo'ad Hamoudeh	Major General Commander of the military operations in Idlib		23.01.2012
Bader Aqel	Major General Special Forces Commander		23.01.2012
General Ghassan Afif	Brigadier Commander from the 45th Regiment, Commander of military operations in Homs, Baniyas and Idlib		23.01.2012
Mohamed Maaruf	Brigadier General Mohamed Maaruf Commander from the 45th Regiment Commander of military operations in Homs		23.01.2012
Yousef Ismail	Brigadier General, Commander of the 134th Brigade		23.01.2012
Jamal Yunes	Brigadier General, Commander of the 555th Regiment		23.01.2012
Mohsin Makhloof	Brigadier General		23.01.2012
Ali Dawwa	Brigadier General		23.01.2012
Mohamed Khaddor	Brigadier General Commander of the 106th Brigade		23.01.2012
Suheil Salman Hassan	Major General, Commander of 5th Division		23.01.2012
Bassel Bilal	Police officer at Idlib central prison		24.07.2012
Ahmad Kafan	Police officer at Idlib central prison		24.07.2012
Bassam al-Misri	Police officer at Idlib central prison		24.07.2012
General Issam Hallaq	Air Force Chief of Staff		24.07.2012
Adnan Aboud Hilweh	Brigadier General of 155 Brigade and 157 Brigade in the Syrian Army		28.10.2016
Jawdat Salbi Mawas	Major General, a senior officer in the Syrian Artillery and Missile Directorate of the Syrian Armed Forces		28.10.2016
Tahir Hamid Khalil	Major General, Head of the Syrian Artillery and Missiles Directorate of the Syrian Armed Forces		28.10.2016

Syria's Repressive Apparatus/Informal Institutions

Name	Post	US Sanctions	EU Sanctions
Jaysh al-Sha'bi	paramilitary group	11.12.2012	
Shabiha	paramilitary group	11.12.2012	
Fawwaz Al-Assad	Shabiha militia		09.05.2011
Mundir Al-Assad	Shabiha militia		09.05.2011
Ayman JABIR	Shabiha militia	11.12.2012	23.08.2011
Mohammed JABIR	Shabiha militia	11.12.2012	23.08.2011
Abdullah BERRI	Head of Berri family militia Aleppo.		14.11.2011
George CHAOUI	Member of Syrian electronic army		14.11.2011
Amar ISMAEL	Head of Syrian electronic army (territorial army intelligence service)		14.11.2011
Mujahed ISMAIL	Member of Syrian electronic army		14.11.2011
Hilal Hilal	Member of the regime affiliated militias known as "Kataeb al-Baath" (The Baath Party militia).		28.10.2016

Appendix 2: The Syrian Political Establishment

Name	Post	US Sanctions	EU Sanctions
Bashar al Asad	President	18.05.2011	23.05.2011
Farouk al Shara	Vice President	18.05.2011	23.05.2011
Muhammad Nasif Khayrbik	Deputy Vice-President of Syria for National Security Affairs	05.11.2007	23.05.2011
Hisham Ikhtiyar	Head of Syrian National Security Bureau	15.08.2006	23.05.2011
Ibrahim al Shaar	Minister of the Interior	18.05.2011	09.05.2011
Mohammad Ibrahim Al-Chaar	Minister of the Interior	29.04.2011	09.05.2011
Bassam Al Hassan	Presidential Advisor for Strategic Affairs	08.05.2014	23.05.2011
Zoulhima Shalish	Head of Personal security	30.03.2012	23.06.2011
Adel Safar	Prime Minister	18.05.2011	
Mohammad Ibrahim al Shaar	Minister of the interior	18.05.2011	01.12.2011
Ali Habib Mahmoud	Minister of Defense	18.05.2011	
Hassan Bin-Ali AL-TURKMANI	Deputy Vice Minister		23.08.2011
Ali DOUBA	Ali DOUBA as special advisor to President Bashar Al-Assad		23.08.2011
Husam SUKKAR	Brigadier, Presidential Adviser on Security Affairs		23.08.2011
Muhammad Said BUKHAYTAN	Assistant Regional Secretary of Baath Arab Socialist Party		23.08.2011
Saqr KHAYR BEK	Deputy Minister of the Interior		14.11.2011
□			
Walid Mouallem	Foreign Minister	30.08.2011	16.10.2012
Ali Abdul Karim Ali	Syrian Ambassador to Lebanon	30.08.2011	
Bouthaina Shaaban	Advisor to the President	30.08.2011	25.06.2012
Dawood Rajiha	Minister of Defense	30.03.2012	23.05.2011
Tayseer Qala Awwad	Minister of Justice		23.09.2011
Adnan Hassan Mahmoud	Minister of Interior		23.09.2011
Azzam, Mansour Fadlallah	Minister of Presidential Affairs		27.02.2012
Allaw, Sufian	Minister of Petroleum and Mineral Resources.		27.02.2012
Slakho, Dr Adnan	Minister of Industry		27.02.2012
Al-Rashed, Dr. Saleh	Minister of Education.		27.02.2012
Abbas, Dr. Fayssal	Minister of Transport.		27.02.2012
Ghiath Jeraatli	Minister of State		23.03.2012
Yousef Suleiman Al-Ahmad	Minister of State		23.03.2012
Hassan al-Sari	Minister of State		23.03.2012
Samir Joumaa	head of the office of Mohammad Nassif Kheir Bek		24.07.2012

Ezzedine Ismael	Political and security adviser to the President		24.07.2012
Omran Ahed Al-Zoubi	Minister of Information	July 18, 2012	16.10.2012
Subhi Ahmad Al-Abdullah	Minister of Agriculture and Agrarian Reform	July 18, 2012	16.10.2012
Safwan Al-Assaf	Minister of Housing and Urban Development	July 18, 2012	16.10.2012
Wael Nader Al-Halqi	Minister of Health	July 18, 2012	27.02.2012
Mohammad Al-Jleilati	Minister of Finance	July 18, 2012	01.12.2011
Hala Al Nasser	Minister of Tourism	July 18, 2012	16.10.2012
Mohammad Abdul-Sattar Al-Sayyed,	Minister of Religious Endowments	July 18, 2012	16.10.2012
Yasser Al-Sibaei	Minister of Public Works	July 18, 2012	16.10.2012
Hazwan Al Wazz	Minister of Education	July 18, 2012	16.10.2012
Mansour Fadlallah Azzam	Minister of Presidential Affairs	July 18, 2012	
Nazira Farah Sarkis	Minister of State for Environmental Affairs	July 18, 2012	16.10.2012
Hussein Mahmoud Farzat	Minister of State	July 18, 2012	23.03.2012
Omar Ibrahim Ghalawanji	Deputy Prime Minister for Services Affairs	July 18, 2012	23.03.2012
Radwan Habib	Minister of Justice	July 18, 2012	
Ali Haidar	Minister of State for National Reconciliation Affairs	July 18, 2012	16.10.2012
Bassam Hanna	Minister of Water Resources	July 18, 2012	16.10.2012
Riyad Hijab	Prime Minister	July 18, 2012	
Mahmoud Ibrahim Said	Minister of Transport	July 18, 2012	16.10.2012
Qadri Jamil	Deputy Prime Minister for Economic Affairs	July 18, 2012	16.10.2012
Imad Mohammad Deeb Khamis	Minister of Electricity	July 18, 2012	23.03.2012
Adib Mayaleh	Governor of Central Bank of Syria	July 18, 2012	14.05.2012
Jassim Mohammad Zakarya	Minister of Social Affairs and Labor	July 18, 2012	16.10.2012
Lubnah Mshaweh	Minister of Culture	July 18, 2012	16.10.2012
Said Mu'zi Hneidi	Minister of Oil and Mineral Resources;	July 18, 2012	16.10.2012
Imad Abdul-Ghani Sabouni	Minister of Communications and Technology	July 18, 2012	27.02.2012
Fuad Shukri Kurdi	Minister of Industry	July 18, 2012	
Joseph Jurji Sweid	Minister of State	July 18, 2012	23.03.2012
Mohammad Yehya Moalla	Minister of Higher Education	July 18, 2012	16.10.2012
Mohammad Zafer Mihbek	Minister of Economy and Foreign Trade	July 18, 2012	16.10.2012
Mohammad Turki Al Sayed	State Minister		16.10.2012
Najm-eddin Khreit .	State Minister		16.10.2012
Abdullah Khaleel Hussein	State Minister		16.10.2012

Jamal Sha'ban Shaheen	State Minister		16.10.2012
Najm Hamad al Ahmad	Minister of Justice	16.05.2013	16.10.2012
Fahd Jassem al Freij	Deputy Commander-in-Chief of the Army and the Armed Forces and Minister of Defense,	16.05.2013	16.10.2012
Sa'ad Abdel-Salam al Nayef	Minister of Health	16.05.2013	16.10.2012
Adnan Abdo al Sukhni	Minister of Industry	16.05.2013	16.10.2012
AL-QADRI, Ahmad	Minister of Agriculture and Agrarian Reform	08.05.2014	24.06.2014
AL-SHAMMAT, Kinda	Minister of Social Affairs	08.05.2014	24.06.2014
ARNOUS, Hussein	Minister of Public Works	08.05.2014	24.06.2014
HIJAZI, Hassan	Minister of Labor	08.05.2014	24.06.2014
ISMAEL Ismael	Minister of Finance	08.05.2014	24.06.2014
KamalEddine Tohme	Minister of Industry	16.10.2014	24.06.2014
Khodr Orfali	Economy and Foreign Trade Minister.		24.06.2014
Samir Izzat Qadi Amin	Internal Trade and Consumer Protection Minister.		24.06.2014
Bishr Riyad Yazigi	Tourism Minister.		24.06.2014
Malek Ali	Higher Education Minister.		24.06.2014
Hassib Elias Shammass	State Minister.		24.06.2014
Houmam Jaza'iri	Minister of Economy and Foreign Trade since 27.8.2014		21.10.2014
Mohamad Amer Mardini	Minister of Higher Education since 27.8.2014		21.10.2014
Mohamad Ghazi Jalali	Minister of Communications and Technology since 27.8.2014.		21.10.2014
Kamal Cheikha	Minister of Water Resources		21.10.2014
Hassan Nouri	Minister of Administrative Development		21.10.2014
Mohammad Walid Ghazal	Minister of Housing and Urban Development		21.10.2014
Khalaf Souleymane Abdallah	Minister of Labour		21.10.2014
Nizar Wahbeh Yazaji	Minister of Internal Trade and Consumer Protection		21.10.2014
Issam Khalil	Minister of Culture		21.10.2014
Mohammad Mouti' Mouayyad	State Minister		21.10.2014
Ghazwan Kheir Bek	Minister of transport		21.10.2014
Bishr al-Sabban	Governor of Damascus		28.10.2016
Ahmad Sheik Abdul- Qader	Governor of Quneitra		28.10.2016
Ghassan Omar Khalaf	Governor of Hama		28.10.2016
Khayr al-Din al-Sayyed	Governor of Idlib		28.10.2016

Atef Naddaf	Higher Education Minister. Appointed in July 2016.		14.11.2016
Hussein Makhoulf	Local Administration Minister. Appointed in July 2016. Cousin of Rami Makhoulf.		14.11.2016
Ali Al-Zafir	Communications and Technology Minister. Appointed in July 2016.		14.11.2016
Ali Ghanem	Minister for Petroleum and Mineral Resources. Appointed in July 2016.		14.11.2016
Mohammed Ramez Tourjman	Information Minister. Appointed in July 2016.		14.11.2016
Mohammed al-Ahmed	Culture Minister. Appointed in July 2016.		14.11.2016
Ali Hamoud	Transport Minister. Appointed in July 2016.		14.11.2016
Mohammed Zuhair Kharboutli	Place of birth: Damascus Electricity Minister. Appointed in July 2016.		14.11.2016
Maamoun Hamdan	Finance Minister. Appointed in July 2016.		14.11.2016
Nabil al-Hasan	Minister of Water Resources. Appointed in July 2016.		14.11.2016
Ahmad al-Hamu	Date of birth: 1947 Minister for Industry. Appointed in July 2016.		14.11.2016
Abdullah al-Gharbi	Minister of Internal Trade and Consumer Protection. Appointed in July 2016.		14.11.2016
Abdullah Abdullah	State Minister. Appointed in July 2016.		14.11.2016
Salwa Abdullah	State Minister. Appointed in July 2016.		14.11.2016
Rafe'a Abu Sa'ad	State Minister. Appointed in July 2016.		14.11.2016
Wafiqa Hosni	State Minister. Appointed in July 2016.		14.11.2016
Rima Al-Qadiri	Minister for Social Affairs (since August 2015).		14.11.2016
Duraïd Durgham	Governor of the Central Bank of Syria		14.11.2016

Appendix 3: The Syrian Private Business Sector

Entities	Description	US Sanctions	EU Sanctions
Hamcho International Group	Owned by Mohamed Hamsho	04.08.2011	23.06.2011
Syria International Islamic Bank (SIIB)	SIIB has acted as a front for the Commercial Bank of Syria, which has allowed that bank to circumvent sanctions imposed on it by the EU.	30.05.2012	25.06.2012
Megatrade	Acts as a proxy for the Scientific Military research Institute (SSRC)	09.07.2014	15.10.2012
Expert Partners	Acts as a proxy for the Scientific Military research Institute (SSRC)	09.07.2014	15.10.2012
The Abdulkarim Group	Owned by designated Wael Abdulkarim	17.12.2014	
The Eagles LLC		08.03.2015	
Syrian Chamber of Shipping		08.03.2015	
Hamisho Trading	Owned by designated Hamisho Family		08.03.2015
Hamisho Steel			08.03.2015
Al-Borouj Trading			08.03.2015
HESCO	Owned by designated George Haswani	25.11.2015	
The Mahrous Group	arranged payment and shipment details for procurements on behalf of SSRC	21.07.2016	
Mahrous Trading FZE	arranged payment and shipment details for procurements on behalf of SSRC	21.07.2016	
Moneta Transfer & Exchange	Assist Rami Makhoulouf and SyriaTel to circumvent economic sanctions, operated by designated Atiya Khouri	21.07.2016	

Name	Position	US Sanctions	EU Sanctions
Mohamed Hamcho	Brother-in-law of Maher Al-Assad; businessman and local agent for several foreign companies	04.08.2011	23.05.2011
Samir HASSAN	Close business associate of Maher Al-Assad		23.08.2011
Khalid Qaddour	Business associates with Maher		23.06.2011
Ra'if Quwatli	Business associates with Maher		23.06.2011
Nabil Kuzbari	□	18.05.2011	
Mohamed Hamcho	Brother-in-law of Maher Al-Assad; businessman and local agent for several foreign companies		23.05.2011
Nizar AL-ASSAAD	Very close to key government officials		23.08.2011
Fares SHIHABI	President of Aleppo Chamber of Industry		02.09.2011
Emad GHRAIWATI	President of the Damascus Chamber of Industry (Zuhair Ghraiwati Sons).		02.09.2011
Tarif AKHRAS	Founder of the Akhras Group (commodities, trading, processing and logistics),		02.09.2011
Issam ANBOUBA	President of Issam Anbouba Est. for agro-industry.		02.09.2011
Mehran Khwanda	Provides logistical support to violent repression		23.01.2011
Salim Altoun	Chairman and CEO of Altoun Group Involved in a scheme through Altoun Group to export Syrian oil with the listed company Sytrol in order to provide revenue to the regime.		14.05.2012
Youssef Klizli	Assistant to Salim Altoun		14.05.2012
Hashem Anwar Akkad	"chairman of the Akkad Group of companies that operate in multiple sectors of the Syrian economy, including oil and gas		23.07.2014
Imad Hamisho	collect steel from the areas destroyed by the Syrian regime armed forces and militias and melt it down in local Syria Steel		07.03.2015
Samir Hamisho			07.03.2015
Bayan Bitar			07.03.2015
Wael Abdulkarim	Assist the Syrian Government to circumvent sanctions	17.12.2014	
Ahmad Barqawi	Assist the Syrian Government to circumvent sanctions	17.12.2014	
George Haswani	middleman for oil purchases by the Syrian regime from ISIL	25.11.2015	07.03.2015
Mudalal Khuri	middleman for CBS	25.11.2015	
Yusuf Arbash	head and director of Hesco's office in Russia	21.07.2016	
Nabil Tizini	financial manager for Hesco's office in Russia	21.07.2016	
Iyad Mahrous	arranged payment and shipment details for procurements on behalf of SSRC	21.07.2016	

Ammar Al-Sharif	Leading Syrian businessman operating in Syria, active in the banking, insurance, and hospitality sectors. Founding partner of Byblos Bank Syria, major shareholder in Unlimited Hospitality Ltd, and board member of the Solidarity Alliance Insurance Company and the Al-Aqueelah Takaful Insurance Company	28.10.2016	
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The Makhlouf family-related businesses

Persons	Position	US Sanctions	EU Sanctions
Rami Makhlouf	Syrian businessman	20.02.2008	09.05.2011
Iyad Makhlouf	Brother of Rami Makhlouf and GID Officer	16.05.2017	23.05.2011
Ihab Makhlouf	Vice-President of SyriaTel and caretaker for Rami Makhlouf's US company	16.05.2017	23.05.2011
Mohammed Makhlouf	maternal uncle of Bashar and Mahir al-Assad. Business associate and father of Rami, Ihab and Iyad Makhlouf.	01.12.2011	01.08.2011
Bassam SABBAGH	Head of Sabbagh & Associates law firm (Damascus) Legal and financial adviser and manages affairs of Rami Makhlouf and Khaldoun Makhlouf.		14.11.2011
Mazen al-Tabba	co-owner, with Rami Makhlouf, of the Al-Diyar lil-Saraafa currency exchange company		23.03.2012
Atiya Khuri	Assist Makhlouf-related businesses to circumvent economic sanctions	21.07.2016	
Aous Ali		21.07.2016	

Entities	Description	US Sanctions	EU Sanctions
Bena Properties		18.05.2011	18.05.2011
Al Mashreq Investment Fund		18.05.2011	18.05.2011
Mada Transport	Subsidiary of Cham Holding		02.09.2011
Cham Investment Group	Subsidiary of Cham Holding		02.09.2011
Cham Holding	largest holding company in Syria	18.05.2011	23.09.2011
Ramak Constructions Co.	Construction of military barracks, border post barracks and other buildings for Army needs.		23.09.2011
Souruh Company	Investment in local military industrial projects, manufacturing weapons parts and related items		23.09.2011
Syriatel	through its licensing contract it pays 50 % of its profits to the Government.	10.08.2011	23.09.2011
Drex Technologies (Virgin Islands)		18.07.2012	24.07.2012

Drex Technologies Holding	Drex Technologies Holding S.A. Registered in Luxembourg.		16.08.2012
Addounia TV		16.05.2011	23.09.2011
Cham Press TV			01.12.2011
Al Watan	Daily newspaper		01.12.2011

