
Reconstruction in Syria: Opportunities and Risks



CORNERSTONE
GLOBAL
Tackling the intractable.™

April 2018

Cover photo credit: Syrians walk amidst the debris of destroyed buildings in the northern Syrian city of Raqa, on January 11, 2018 after a huge military operation led on the ground by Kurdish fighters and in the air by US warplanes defeated jihadists from the Islamic State group but also left the city completely disfigured. (AFP)

CONTENTS

.....	
Briefing	4
.....	
About Us	9
.....	

BRIEFING

Seven years after war broke out in Syria the conflict appears not to be near an end, but it has become increasingly clear President Bashar al-Assad will not be overthrown – or leave office any time soon.

The military and political backing Assad has received from Russia, Iran, and Hezbollah has left him as the likely victor (if such a term can be used) in this conflict.

Western powers, including the United States, the United Kingdom, France, and others, have failed to support rebel groups with the substance Assad has received from his backers, and as a result the future of Syria – or at least the majority of its territory – appears to be in Assad's hands.

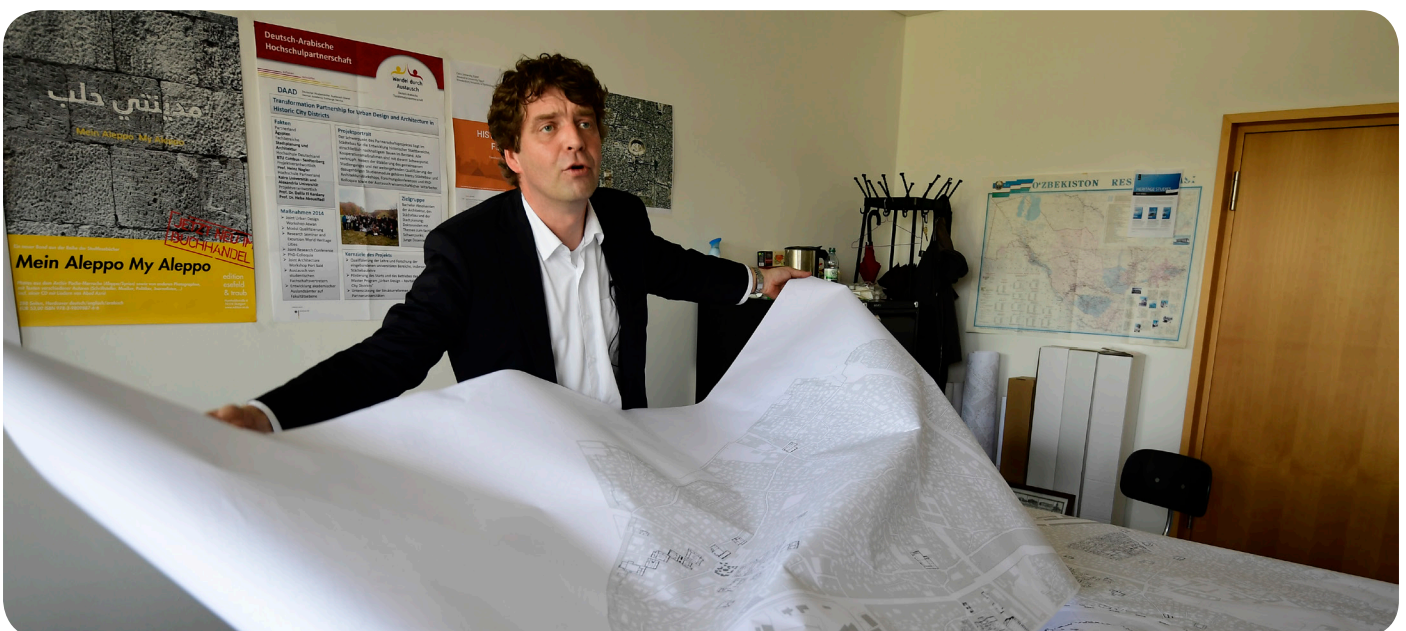
The reality is Assad must be dealt with economically and politically. This means for Syria, a country ravaged by war, Assad's government will play a critical role in the reconstruction of the country, when it emerges from the throes of

conflict into a period of mass building projects.

In 2017 reconstruction stepped up pace in Syria, in line with Assad's victories on the battlefield. Assad's victory in Syria's second city of Aleppo, the de facto collapse of the Islamic State (IS), and strategic wins in Homs and Hama have all run parallel to a myriad of companies winning big contracts in relation to the country's reconstruction.

Of course, the contracts being awarded for Syria's reconstruction run in line with the political alliances that have served Assad so well in recent years. Russia and Iran have won large contracts in the construction, energy, telecommunications, and hydrocarbon industries, as have China. There have also been reports of companies from Lebanon, Iraq, Armenia, Belarus, and Serbia all registering locally to set up partnerships with Syrian companies.

There have been reports – including in February 2018 by Global Risk Insights – that “foreign





nationals are incorporating businesses in Syria almost every day”. These businesses have been opening at the same time as the Syrian government has been introducing legislation aimed at managing the reconstruction process. Rules are in flux regarding many aspects of the reconstruction, including provisions for work permit, cross-border currency transfers, and capital requirements for business registration. Assad’s victories on the battlefield have, as already stated, pushed forward the reconstruction process. With the backing of Russia, Iran, and others, Assad’s reconstruction will take place with or without Western nations or companies based in North America and Europe. That said, the cost of reconstructing Syria has been estimated to be potentially between \$300 and 500 billion. Reconstruction is also likely to take between 10 and 15 years to complete. It is not feasible to expect Russian, Iranian, or other

smaller nations to have the companies able to invest in reconstruction to the level required. Assad will be forced to look beyond his immediate allies.

Europe, the United States, and other Western powers have been acutely aware of Assad’s likely need for investment. They have dangled the lure of investment in return for political concessions in the conflict for some time. However, Assad has not yielded – and is not likely to be allowed to by his fiercely anti-West backers, Russia and Iran. In the midst of this standoff, Syria’s troubled neighbour Lebanon may potentially eke out an influential role for itself.

Lebanese Prime Minister Saad Hariri has suggested Syria’s reconstruction needs could in part be met by Lebanon’s Tripoli port acting as a pathway for imports to its neighbour. This,

Hariri has said, could boost Tripoli's economy, as it is a city that has for many decades suffered poverty and economic strife. There is expected to be an annual demand of around 30 million tonnes for port imports to reconstruct Syria – and their ports of Tartous and Latakia would only be able to fulfil around half of this amount. It is perfectly feasible to suggest that Tripoli could plug this gap – and provide a useful boon for a Lebanese city that has proved restful in recent times.

It is important to note that in the midst of the fierce battles in East Ghouta – a suburb near the capital – Damascus itself has retained its relative sense of normalcy, as Assad has sought to protect throughout the conflict. This means the capital city remains a place where business can be done – although under the watchful eyes of a regime that has many hands to fill as favours for political support.

It is imperative to note opportunities and risks in Syria reconstruction will be determined by who controls what, and where. The focus of this briefing is on areas under Assad's control – but it should be noted any company seeking to operate in places under rebel, Kurdish, Islamic State, or Turkish control will face differing opportunities and risks.

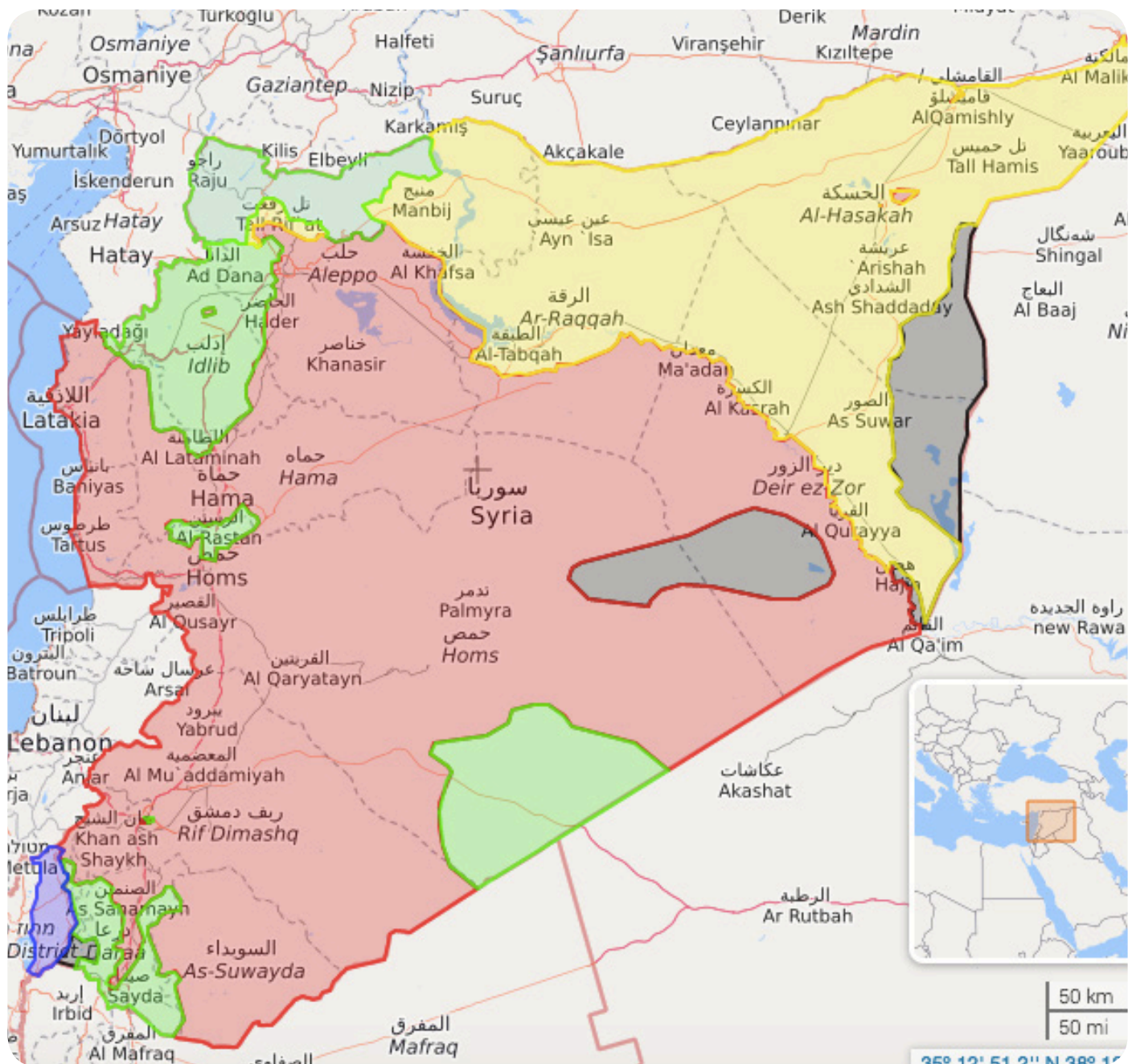
For companies seeking Syria reconstruction projects, a key consideration will be access points to the country. Depending on where projects are located, materials and personnel will likely need to be travel into Syria on land through either Jordan, Lebanon, Turkey, Iraq, or via sea. Each option has potential benefits and pitfalls.

Jordan has easy access to southern and eastern Syria, including the capital Damascus. Jordan is politically stable, has the necessary infrastructure, and has, through the reconstruction of Iraq, a history of acting as an intermediary for these kind of projects.

Lebanon has good proximity to Syria – and has strong land connections into west and south Syria, including Damascus. However, Lebanon's benefit of proximity to Syria is undermined by its inferior infrastructure when compared with Jordan, as well as the potential influence exerted on any companies by the presence of Shia militia Hezbollah. The militia has been a strong backer of Assad on the battlefield and it cannot be relied upon to act as a reasonable political actor when dealing with companies involved in Syria reconstruction.



SYRIA: WHO CONTROLS WHAT?



Areas control

- Government & pro-government forces:
Assad, Russia, Iran
- Rebels: FSA, moderate rebels(many groups:
Ahrar Al Sham, Jaish al Islam etc), more
radical groups like Hayat Tahrir Al-Sham
HTS(ex Al-Nusra)
- Islamic State
- Kurds: YPG, PKK, Peshmerga, other
- Golan Heights - controlled by Israel
- FSA groups and Turkish troops in Northern
Syria

For north Syria, Turkey is a potential route into the country. However, given the open conflict between Turkey and Turkish backed rebels against Kurdish forces in northern Syria, this raises risks for any company seeking to use this as a route. The Syrian border is also far from Turkey's reliable international airports in Istanbul and Ankara, so provincial airports including Gaziantep would need to be used as a travel hub. This raises security risks as violence in Gaziantep and the Syrian border region has targeted aid workers and other internationals in the past.

For any work taking place in Kurdish-controlled areas of north Syria, Iraq is a potential base from which to travel into Syria. Whilst Iraq is not a viable option for the rest of Syria, given its instability, lack of infrastructure, and distance from Syria's urban centres, Iraq's Kurdish region hub, Erbil, has limited but valuable use for any work needing to access Kurdish controlled northern Syria.

As for sea access to Syria, the port of Latakia is the only viable direct option. Latakia is likely going to be under effective Russia control for the foreseeable future – as a result, any company seeking to use this port as an access point to Syria must understand the associated risks with relying on a route that will be subject to the priorities and control of Russia. This means the capacity of the port will likely put a priority on dealing with Russian needs, and so companies may not be able to rely on it to uphold any agreements with regard to processing material import requirements.

Reconstruction priorities are likely to be focused in the future on rebuilding Syria's transport and vital infrastructure, much of which has been destroyed by years of war. Roads, dams, and other related infrastructure projects are likely to be areas of key opportunity. The war has also led to a complete breakdown of tourism infrastructure and civilian services. There will need to be vast training programmes in education and civil society to rebuild Syria, which provides potential opportunities to companies operating in the services industry. Also, the country will need to work hard to sell Syria as a

tourist destination once more, and there will be much opportunity to do this through potential rebuilt resorts along the Mediterranean coast, as well as in Syria's ancient tourist attractions, including Palmyra in the east.

Residential reconstruction will be another key area of rebuilding Syria. Drone images have shown vast destruction across the country - and this has left housing stock in Syria decimated. In the east, as of the end of 2017, Deir Ezzor had 32 percent of its housing damaged and 10 percent completely destroyed. In the northern province of Idlib, 25 percent has been damaged and 6 percent destroyed. In Syria's second city, Aleppo, 23 percent has been damaged and 7 percent destroyed. Other key urban areas, including Homs, Hama, and Raqqa have all had similar numbers of housing stock destroyed. This means residential projects offer a key opportunity, providing the risks can be managed, for reconstruction projects in Syria.

Any Western company seeking to operate in Syria's reconstruction must not only take into account potential threats to staff, but also consider how they would operate in a country where the government will be keen to see its friends and allies benefit financially. There is a far-reaching network of sanctions in place on a plethora of Syrian businessmen – and any company operating in Syria would need to be extremely careful in knowing who they are dealing with at every level, both directly and indirectly. Any company working directly or indirectly with any individual under sanction could face serious repercussions.

A key aspect to any potential business dealing in Syria is understanding the American policy toward Assad. Trump's administration appears to desire tightening the screw slightly on Assad, and may pursue economic pressure as a means of holding back Assad's ability to capitalise on his military victories with reconstruction success. It is worth watching to see whether economic sanctions are hardened, and thus making it more difficult for Syria to do business.

All in all, the reconstruction of Syria provides ample business opportunities but the time for

Western involvement feels premature at the current juncture. Righteous anger at Assad's brutal actions in the war mean he is no friend of the West – although, in the world of politics, this can and quite possibly will change over time. For now at least, any Western company wishing to win reconstruction work in Syria will have to carefully consider the metaphorical minefield of issues there are to contend with to avoid any work causing problems back at home.

ABOUT US

Cornerstone Global Associates is a Mayfair-based management and strategy consultancy, with offices in Dubai, Washington DC, and Singapore. We strive to provide our clients with advisory services that give them unique insights to the reality of doing business in complex and challenging environments.

For further information about this briefing please email contact@cstoneglobal.com.



CORNERSTONE
GLOBAL
Tackling the intractable.™