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SYRIA'S WAR ECONOMY AND PROSPECTS OF RECONSTRUCTION*

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After chemical attacks and the looming threat of US intervention, analysis of the Syrian conflict focuses more than ever on sectarian divides and outside interference. On a tactical level pundits exchange the names of brigades and features of weapons systems. Even the ideological preferences of thugs are likely to attract more attention than a basic question: What do Syrians eat? How do they cope in a war economy and what does their food security tell us about the prospects of reconstruction and the long-run viability of Syria?

Answers to these questions become all the more pressing as the silver lining of a peacefully negotiated settlement has appeared with the American-Russian understanding over a destruction of Syrian chemical weapons

Syria's economy was in dire straits long before its civil war. Oil was its most important foreign exchange earner, but production from mature fields was in decline. Since 2008 its overall petroleum balance has turned negative. Imports of petroleum products like diesel have exceeded the value of declining crude exports ever since.

While the oil front crumbled, agriculture did not fare better. Economic liberalization in Syria's crony capitalism in the 2000's meant granting urban clients and military-security networks privileged access to resources. Agricultural support schemes were dismantled and small-scale farmers were left behind, vulnerable to the epic drought from 2006 to 2011.

It was this disenfranchised rural constituency that turned against the regime first. The Syrian uprising started in villages and mid-sized towns like Deraa and Deir al-Zor, only later the conflict would reach big cities like Aleppo and Damascus.

Without food imports and food aid Syria would face famine today. The World Food Program (WFP) and its Syrian partner institutions like the Syrian Arab Red Crescent (SARC) expect to provide food assistance to 4 million Syrians by October and to two million refugees in neighboring countries, most notably in Lebanon.

With economic disintegration comes political disintegration and a growing role of warlords. Economic recovery, not military victory of whatever side, is crucial for a sustainable political solution. It should rank high on the agenda of Europe and the US. The energy sector, tourism and agriculture would need to be a focus of reconstruction efforts.

under international supervision. The Syrian Deputy Prime Minister Qadri Jamil has acknowledged that Syria's civil war has reached a stalemate and has raised the possibility of peace talks in Geneva, while Iranian President Hassan Rouhani, an important backer of the Assad regime, has offered Iran's help in brokering such peace negotiations. In contrast, a further deterioration of Syria's economy could neutralize positive outcomes of a political settlement and lead to more instability.

Syria's economy was in dire straits long before the war. Oil was its most important foreign exchange earner, but production from mature fields was in decline. Oil output in the 1990s almost doubled, but then fell from a peak of 677,000 barrels per day in 2002. In 2011, only 327,000 bpd were produced. To make matters worse, like Iran, Syria has a lack of refining capacity.

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gravated this situation as crude production has plummeted and the EU sanctioned Syrian oil exports. Rebels still export oil in trucks to Turkey or the government barter crude against *mazot* (heating oil) from Russia, but the erstwhile oil boom has stopped long before the war and is unlikely to return. The regime's plan B was to increase production of natural gas offshore in the Eastern Mediterranean and establish itself as an energy transit hub for neighboring countries, but in the current security situation this seems like a flight of fancy.

While the oil front crumbled, agriculture did not fare better. This had negative implication as agriculture still presents 23 percent of GDP and Syria has a large share of rural population in regional comparison with over 40 percent. By Middle Eastern standards it has rich agricultural endowments; rainfed farming is possible in the west and north, while the Euphrates offers water for irrigation in the east. Agriculture as such was invented in nearby Mesopotamia and during the Second World War the Allied Middle East Supply Center in Cairo procured food from Syria, Iraq and Egypt for export to food deficient parts of the region like Palestine and

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the Arabian Peninsula. Unlike many of its neighbors Syria did not neglect agriculture in the wake of the oil boom. The government paid farmers above world market prices and supplied them with subsidized input factors. The system had its follies as it focused on water-intensive crops like cotton and wheat, relied on overpumping of ground water, used inefficient flood irrigation and expanded into fragile steppe eco systems, but production increased. Iraq was on the verge of famine by the mid-1990s as multilateral UN sanctions had cut off its food imports, self-reliance appeared to be prudent. The Syrian regime regarded self-sufficiency in strategic crops as vital. By 1994/95 Syria was self-sufficient in wheat and even exported a surplus. Yet like its oil boom its agricultural expansion was not sustainable. Droughts necessitated food imports in 1999/2000 and then again from 2008/09 onwards. With declining oil exports, financing of such food imports has become increasingly difficult.

The plight of Syria's agricultural system does not lend itself easily to neo-Malthusian tales of climate change and water scarcity as a cause of conflict. Rather it points to the importance of the political economy issues and the growing social polarization as a result of economic reform programs. Syria's overextended security state faced a fiscal crisis in the 1990s caused by inefficiencies, low oil prices and reduced opportunities for external rent acquisition after the end of the Cold War. To address a chronic fiscal deficit the regime introduced austerity measures and tried to mobilize national and international private capital. Economic liberalization in Syria's crony capitalism meant granting urban cli-

ents and military-security networks privileged access to resources. Agricultural support schemes were dismantled and small-scale farmers were left behind, vulnerable to the epic drought from 2006 to 2011. Whole villages migrated to cities in the west and put a strain on the social fabric, while the regime had neither the will nor the capacity to cope with the crisis in an equitable way. State institutions hollowed out, as privatization had not been accompanied by adequate taxation. Inequalities and malnutrition increased. By 2010, well before the war, the UN estimated that 3.7 million Syrians suffered from food insecurity. It was this disenfranchised rural constituency that turned against the regime first. The Syrian uprising started in villages and mid-sized towns like Deraa and Deir al-Zor, only later the conflict would reach big cities like Aleppo and Damascus.

In 2012/13 rainfalls have improved, but production remains low as the planted area has declined and farmers cannot afford diesel anymore to pump water for irrigation. Infrastructure and supply schemes are in disrepair. Less than a third of the government's wheat collection centers are up and running. The picture is even bleaker for flourmills, bakeries and yeast factories. With 2.4 million tons the wheat harvest will be way below its average of the preceding decade when it exceeded 4 million tons. The government continues to subsidize

bread, but the amount it can make available at the reduced price is far below demand, even in the areas it still controls. Meanwhile large parts of Syria's breadbaskets in the Gezira in the northeast and the Hauran in the south are rebel held and have been particularly affected by fighting.

Coping strategies

If one goes to the bus terminal in Beirut one would not guess that Syria is torn by civil war. One can get tickets to every major city, even to Qamishli at the border triangle with Turkey and Iraq. This means that the bus driver has to pass through government, rebel, and Kurdish territories alike, knowing who to bribe at every checkpoint. Commercial transaction costs have evidently soared. Like any war, the Syrian conflict is a tax on the economy and bankrupts the currency. The Syrian pound has lost half of its value against the dollar over the last year. As a stop gap solution Syria can trade in local currency with its allies Iran and Russia, but the purchasing power of ordinary people has fallen dramatically, even of those who still receive salaries and have not lost their livelihoods.

The coping strategies of Syrians start to resemble those of people in countries that have witnessed historic famines like Ethiopia. Households cut back on meat, fruits and dairy products, and concentrate their diets on cereals. Some of them had to sell livestock and other vital assets, indicating severe distress. As a result the price of wheat flour has doubled in real terms over the last year, while that of livestock

has fallen. Livestock exports have increased from poverty-stricken Syria to neighboring countries like Jordan and Lebanon where prices are higher.

Without food imports and food aid Syria would face famine today. The World Food Program (WFP) and its Syrian partner institutions like the Syrian Arab Red Crescent (SARC) expect to provide food assistance to 4 million Syrians by October, up from 2.5 million in August. Food is delivered to government and rebel areas alike. Dispatching of supply convoys requires extensive negotiations. Logistics are organized mainly via the ports of Tartus and Beirut as the route via Jordan is only sporadically open and borders with Turkey and Iraq mainly closed. In addition, there are two million Syrian refugees in neighboring countries who are in need of assistance, which brings the total to six million, more than a quarter of the Syrian population.

Tiny Lebanon has borne the brunt of Syria's refugee crisis. Officially it has absorbed over 700,000 people, but the number might be higher as the UN Refugee Agency UNHCR has a registration queue and many cases remain unreported. The weak Lebanese caretaker government is increasingly worried about the costs and effects on its own political stability. Two bomb explosions in August raised the specter of a spillover of the Syrian civil war into Lebanon. First a car bomb in the Shiite dominated south of Beirut where Assad ally Hizbollah reins supreme claimed 27 lives. Then twin bombings in front of two Sunni mosques in the northern city of Tripoli led to the deaths of 42 people in what was the severest eruption of violence since the end of Lebanon's own civil war in 1990. In some quarters of Tripoli radical Sunni and Alawite militias have faced each other off in violent clashes and Syrians with alleged ties to the Syrian security apparatus have been implicated in the bombings.

Begging Syrian refugee children have become a common sight in Beirut and other Lebanese cities. Inside Syria the situation is worse. The country requires 1.5 million tons of wheat imports in 2013/14. The WFP estimates to provide 378,000 tons; the remainder of more than one million tons will need to come from commercial imports. Food is exempted from sanction regimes, but financial transactions are not. The regime struggles to find takers for its food tenders as sellers are shunning the risk of payment delays from frozen foreign accounts.

Hard currency is sorely needed, yet with sanctions and its ailing oil sector, what can Syria export? Phosphates still generated \$200 million in export earnings in 2010 and Syria's longstanding customer Greece blocked a proposed EU import ban in 2012. The investment boom in luxury real estate and hotels that Gulf capital engendered in the mid-2000's has evaporated, however, and has not yielded sustainable economic activities. Tourism still contributed 5 percent to GDP in 2011, but has vanished. Some of the archeological sites that used to attract it are destroyed, like the minaret of Aleppo's famous Umayyad mosque. Even in the case of

a peace accord it would take years to instill enough confidence in the security situation to allow for some resurgence of the tourism industry.

Hopes for improvements are slim

Syria was not an attractive investment destination for industries and services even before the war. It scored badly on international rankings like the Ease of Doing Business report of the World Bank, while its import substituting industries of yesteryears have been mired in inefficiencies. If developments in Egypt and Tunisia are a guide, hopes for improvements are slim. Multinationals like Electrolux have suspended operations in Egypt. In Tunisia, German automotive supplier Leoni has shut down a plant, not only because of political uncertainties. Middle Eastern countries are increasingly boxed between Asian producers that are more competitive in mass markets like textiles and crisis stricken southern European countries that have become more attractive investment destinations after internal devaluations.

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This leaves many Syrians with savings, foreign aid and remittances of relatives to procure their goods of daily needs, unless they can rely on theft, ransom and political transfer payments from abroad. Economies of looting can become a permanent feature of a country as Somalia has shown. If the history of (nation) states can be written as a tale of increased commodification and political centralization that both require and feed on each other, economies of looting describe a situation where this process has been reversed, lawful capitalist development has ceased and accumulation by dispossession is the only remaining game in town. Such an economic structure neither needs political centralization nor can it support it as evidenced in the increasing political fragmentation of Syria: rebel groups that fight the Assad regime now number hundreds and are only loosely associated at best, while the power of the regime over its troops has been questioned in such essential issues like the use of chemical weapons, which might have been the result of local commanders gone rogue according to American intelligence. As much as security is a necessary precondition for reconstruction, the opposite is true as well: without a semblance of economic recovery and political recentralization, ideally under pluralist and democratic conditions, security will be elusive even if the disparate Syrian factions could agree on a formal peace accord. Europe and the US need to give economic development assistance high priority in their contingency plans and look beyond immediate peace negotiations, as the real work would only start after them.

Before the civil war Syrian central bank reserves were estimated between \$18-20bn. Now they are around \$9bn, with US sources even claiming \$4bn, which the Syrian government denies. The Syrian news agency SANA has estimated that the annual government deficit in 2013 will be \$10bn, up from \$3bn in 2012. The country is going broke fast. So far, the gov-

ernment is still interested in maintaining appearances and a semblance of public services. In some cases it still pays the salaries of employees of utility companies in rebel held areas via couriers for example. But this is likely to erode. As the government is exhausting its currency reserves and cannot fulfill vital economic functions like food provision anymore, entrepreneurs of violence are taking over. Warlordization could accelerate. Rebel factions have already turned against each other, while the government has increasingly relied on non-regular forces like the *shabiha* militias. It has thus become a warlord itself. With deteriorating economic conditions it will likely shed concerns for general welfare further and will concentrate efforts on supplies to its immediate troops and loyalists, leaving the rest of the population to foreign aid and destitution.

If this scenario is to be avoided a political solution to end the conflict would need to be found fast, followed by an inclusive reconstruction effort that wards off the cronyism of the 2000s. Improved security and framework conditions could bring back international and Syrian expatriate capital and include it in national development plans. A revival of the energy sector, tourism and agriculture would be a high priority, unlike in neighboring Iraq where agriculture has faced continued neglect over the last decade. Syria has one of the highest shares of rural population in the Middle East and the absorption capacity of its cities will remain limited. Improved water management, more sustainable cultivation practices, negotiations with Turkey over water rights along the Euphrates and climate change adaptation would need to be part and parcel of such endeavors. In the end the long-run viability of Syria will depend on economic recovery, it will not be decided by military victory of whatever side.