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## Syria: towards reconstruction or deconstruction?

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This month marks seven years since the uprising in Syria which has evolved into a devastating civil war that now involves multiple regional and international actors. In that span, over half a million people have been killed, equal to 2.4 percent of the population in 2011. The number wounded is estimated at about two million; the share of dead and wounded together is 11.5 percent of the population. The US equivalent would be 37 million people!

According to the Syrian Observatory for Human Rights, about 85% of the casualties have been killed by the Assad regime forces and its allies: Russia, Iran, Hezbollah, and local and non-Syrian militiamen. About 12 million Syrians have been displaced, with millions having left the country. As a result of the conflict, 60 percent of Syrians now live in extreme of poverty. In the first four years after the onset of the conflict, some 540 thousand jobs were destroyed annually, with the result that in 2017, over six million Syrians were neither working, nor in any form of school or training. Unemployment among young people reached 78 percent in 2015. The long-term consequences of this inactivity will be a huge loss of human capital, and a shortage of skills.

Syria's GDP, that equaled \$60 billion in 2010, was estimated at \$20 billion in 2015 and \$15 billion in 2016. Since then it has shrunk further but there are no reliable estimates for 2017. Output in the oil sector declined by 93 percent during the same

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period, while the non-oil economy contracted by 52 percent due to the massive destruction of infrastructure, shortages of fuel and electricity, the collapse of business confidence, and the disruption of trade. Hydrocarbon production fell from 383,000 barrels per day (bp/d) in 2010 to an average of 10,000 bp/d in 2015 and 2016.

Agricultural production also suffered significant losses. The conflict has led to widespread damage to irrigation systems, electricity supplies, shortages of labor and inputs, such as seeds, fertilizers, and fuel. Syria was a net producer of wheat in the period 1990-2010 (excluding drought years) but output of wheat in 2016-2017 was estimated to be at 1.5 million tons, some 55 percent lower than the 2007-2011 average of 3.4 million tons.

Syria's livestock economy that accounted for about 40 percent of total agricultural output has also been badly affected by the conflict. There are 30 percent fewer cattle, 40 percent fewer sheep and goats, and 60 percent less poultry. Overall, agricultural GDP contracted by 41 percent between 2011 and 2015, and this followed a 10 percent decline in 2010.

International trade, especially exports, also declined severely. Total exports fell from \$7.9 billion in 2011 to \$631 million in 2015, a fall of 92 percent in four years. Imports declined from \$17.3 billion in 2011 to \$47 billion in 2015, a 73 percent fall. The faster decline in exports than imports (and GDP) was due to a number of factors. Traded sectors, such as oil, were more exposed to changes in income than non-tradable sectors; sanctions on Syrian exports blocked sales; and some export industries may have moved away from formal exports to production for domestic consumption, while others may have engaged, directly or indirectly, in illicit trade. The mineral sector suffered the most dramatic declines with exports falling from \$4.7 billion in 2011 to almost zero in 2015. The decline in imports of manufactured goods from \$11.5 billion in 2011 to \$2.8 billion in 2015 accounted for two-thirds of the total reduction in imports.

Foreign exchange reserves have been almost depleted. With conflict and international trade sanctions, the current account deficit was estimated to have risen from 0.7 percent of GDP in 2010 to 28 percent of GDP in 2016. This was due mostly to the

collapse of oil exports and tourism revenues as well as sanctions. The government has been increasingly financing its growing external deficit through withdrawals from the Central Bank reserves. It is estimated that this has caused the amount of foreign reserves to fall from \$21 billion in 2010 to less than \$1 billion in 2015.

Had the conflict ended in 2017, GDP would recoup about 41 percent of the gap with its pre-conflict level by 2021. In this scenario, the cumulative GDP losses will reach almost eight times the 2010 GDP by the 20th year. In comparison, GDP recoups only 28 percent of the gap in four years if the conflict ends in its 10th year, and cumulative losses will be at around 13 times the 2010 GDP.<sup>1</sup>

The war is now winding down but the fighting remains fierce. Only a few areas controlled by rebels remain to be conquered by Bashar al-Assad's regime before it is in control of most of the country. Achieving this has involved appalling violence inflicted on the civilian population in the eastern suburb of Damascus, Ghouta. In the north of Syria, the fighting in Idlib, which has intensified in recently, has raised fears of a humanitarian catastrophe in an area already crowded with refugees. According to Turkish officials, the assault by the regime on the last Syrian province under rebel control could spark a "new wave of migration", amid growing alarm over a campaign that has displaced more than 100,000 people.<sup>2</sup>

Meanwhile, Assad's allies, Russia and Iran are looking forward to the economic benefits that they can obtain once the fighting stops and reconstruction begins. Before it can begin, finance will be needed and Russia has called on the EU to fund it, playing on European fears of further migration from the Middle East.<sup>3</sup>

In April 2016, soon after it intervened in the Syrian war, Russia signed contracts worth almost \$1 billion for infrastructure reconstruction. In November 2016, Damascus pledged to give Moscow priority in awarding contracts. Two Kremlin-linked energy firms are reported to be doing business in oil, gas, and mining in areas cleared of the Islamic State. The two countries are even considering a new joint bank to smooth such transactions.

Syria has also been turning to Iran for help. Earlier this year, firms linked the Islamic Revolutionary Guard Corps signed deals to rebuild Syrian phone networks and reconstruct the mining industry. Iranian companies have signed preliminary accords to build new power plants in Aleppo and Homs. Iranian oil officials have also said the country will build an oil refinery in Syria.<sup>4</sup>

The Assad regime has pledged to offer benefits to Russian companies involved in Syrian “reconstruction” projects. Early in 2018, the Syrian ambassador to Russia stated that Bashar al-Assad had ordered the government to provide the maximum benefits to "Russian colleagues" who will participate in Syrian reconstruction. This is at the expense of Iran where there have been complaints of a Russian takeover of Syrian reconstruction projects.<sup>5</sup>

Saudi Arabian, Qatari, and Turkish support for Assad’s domestic opponents has weakened. Riyadh has been focusing more on the conflict in Yemen, internal reform and the dispute with Qatar. The latter has been preoccupied with its dispute with Saudi Arabia, the United Arab Emirates, Bahrain, and Egypt. Turkey’s priorities have moved from the downfall of Assad to combating the rise of Syrian Kurdish forces on the Syrian-Turkish border. Meanwhile relations with Saudi Arabia, Qatar, and Turkey have improved despite their differences on Syria. Saudi Arabia is cooperating with Russia in the oil market. Russia's relations with the United States and the West remain tense; Turkey and Moscow have accordingly increased bilateral cooperation.

The United States' support for Syrian Kurds has exacerbated Turkish-U.S. relations. Turkey’s intervention against the Kurds in northwestern Syria has in turn led to apprehension in both Damascus and Tehran. Plans to create a US-backed, Kurdish-led border force in northeastern Syria have raised fears that the United States may be helping to create an autonomous Kurdish enclave. The creation of this force to help defend that part of northeastern Syria, reported to be 30,000-strong, is opposed by Russia, Turkey, Iran and the Assad regime. It is unclear whether the United States is committed to backing it.

The Kurdish faction that dominates the SDF maintains that the territory should become a self-governing province of a federalized Syria. It is an area that contains a large share of Syria’s oil and gas reserves and its main hydroelectric dam. American

officials have said the United States would continue to support its allies in Syria, but they have been vague about how and for how long. Turkey opposes the Syrian government, but considers the Kurds a dangerous enemy and fervently objects to a semiautonomous Syrian Kurdish entity bordering its own Kurdish areas, where it is fighting Kurdish insurgents.

The Kurds are not only working with the US but also with the Russians. By keeping channels open to the Russians, they retain leverage over the United States and Turkey, and possibly a way to reconcile with the Syrian government if all else fails.<sup>6</sup>

The east bank of the Euphrates contains some of Syria's largest oil fields that accounted for more than 130,000 b/d of Syria's pre-war 400,000 b/d output. This area is under control of the SDF. While combat is ongoing in Idlib, Afrin and the Damascus suburbs, the front along the Euphrates has mostly remained peaceful since Islamic State was pushed out in 2017.

The attempted advance on the SDF-held 'Conoco' gas plant, near Deir Ez-Zor, by pro-Assad forces in February 2018 shocked many. The SDF called for US air support to repel the attack. The US attacked and as a result there were dozens of Russian casualties, belonging to a Russian militia called Wagner, which has operated elsewhere in Syria as well as in the Ukraine. The unsuccessful February operation was designed to gain control of Syria's largest gas processing plant, and potentially some of Syria's largest oil fields which run down the eastern bank of the Euphrates.

In 2010, Syria produced 380,000 b/d of crude, 250,000 b/d for domestic demand and the balance for export. The latter provided a crucial source of revenue for the economy. In 2010, oil accounted for 30% of 2010 government revenues, amounting to \$4 billion. Syria's oil output had steadily declined since 1996 when it neared 600,000 b/d, but natural gas output was on the rise until the war retarded its development.<sup>7</sup>

The embers of Syria's war remain smoldering. The numerous parties involved in the conflict continue to seek strategic gains, and simultaneously, to help cover the costs they are trying to gain control of the few economic assets left. The price continues to be paid by Syrian civilians who have suffered so much.

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<sup>1</sup> *The World Bank*, "[The Toll of War: Economic and Social Impact Analysis \(ESIA\) of the Conflict in Syria-Key Facts](#)," *Brief*, July 10, 2017.

<sup>2</sup> Kareem Shaheen, "[Assad crackdown on Idlib could trigger a refugee 'catastrophe'](#)," *The Guardian*, January 13, 2018.

<sup>3</sup> *Financial Times*, "[Russia Presses EU to Pay Up for Syria](#)," January 10, 2018.

<sup>4</sup> Bethany Allen-Ebrahimian, "[Syrian Reconstruction Spells Juicy Contracts for Russian, Iranian Firms](#)," *Foreign Policy*, October 20, 2017.

<sup>5</sup> *AlSouria Net*, "[Assad Offers Russia Reconstruction Benefits at Iran's Expense](#)," February 28, 2018.

<sup>6</sup> Anne Barnard, "[U.S.-Backed Force Could Cement a Kurdish Enclave in Syria](#)," *New York Times*, January 16, 2018.

<sup>7</sup> *Middle East Economic Survey (MEES)*, "Syria's Eastern Oil Fields: The Post-War End-Game Published on Fri, 09 Mar 2018," (Vol. 61, Is. 10) March 9, 2018.