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Syria's War of Self-Destruction and Its Regional Implications

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Up to 100,000 people have been killed, 1.5 million have fled the country and over four million have been made homeless in Syria's war of self-destruction. The intensity of the fighting and the losses in life and property are even greater than in Iraq, largely because the Syrian government is waging war on its own people.

One in three Syrians and as many as four million children are currently in need of urgent humanitarian assistance. Between January and April 2013, the number of people displaced in Syria more than doubled. The UN High Commission for Refugees (UNHCR) expects that by the end of 2013, the number of refugees will reach nearly 3.5 million—or over 15 percent of the population. Refugee camps across Syria's borders are currently receiving 7,000 new arrivals every day. The Norwegian Refugee Council report is even more alarming: in April 2012, one million people needed assistance; by April 2013, the number had reached 6.8 million. This included 4.25 million Syrians who are internally displaced and more than 1.6 million refugees in Jordan, Lebanon and Turkey. UNICEF, the UN children's agency, estimates that more than 10 million Syrians—half the population—will need help by the end of the year.

Estimates of Syria's GDP (national income) indicate a fall of 60 percent in two years to $27 billion in 2013. In the last three years, GDP per capita has collapsed by over 60 percent from about $3,270 in 2010 to a forecast $1,280 in 2013. The economy is being supported by aid to both sides in the conflict: the government is receiving help from Iran and the rebels are receiving aid from Qatar and Saudi Arabia. There are reports that the rebels have received $3 billion to buy weapons, ammunition, and civilian equipment for the regions of Syria that they control.

The regime is now surviving on Iranian handouts. The Central Bank of Syria has reported that Iran has opened two lines of credit totaling $4 billion and expects to open up a third to counter the effects of an international embargo and enable Damascus to finance petroleum imports. Prior to the outbreak of violence, the Central Bank of Syria had about US$18 billion in foreign currency reserves, but that is now estimated at $2-4 billion, enough to cover only one or two months of imports. The Central Bank quoted an exchange rate of 99 Syrian pounds to the dollar at the end of May 2013, compared with 47 pounds to the dollar before the uprising in 2011. On the black market, the pound is currently trading above 90 to the dollar (although a rate of 140 was quoted in Aleppo). Unemployment has shot up from 500,000 before the crisis to at least 2.5 million this year, but that figure is an underestimate given the huge damage to the productive sectors of the economy. If the conflict continues, 60 percent unemployment is forecast.

Before the uprising, oil was one of the main sectors of the economy, with production at about 380,000 barrels a day. In 2010, exports—mainly to Europe—were worth in more than $3 billion. As rebels captured many of the country's oil fields, setting wells aflame, and as looters took crude oil, exports have ceased and production has dwindled to about 20,000 barrels per day, or five percent of its pre-war output. According to the oil minister, Syria, once a small energy exporter, is being forced to import oil and derivatives at a monthly cost of $500 million.

The cost of repairing Syria's infrastructure has been estimated at $60-100 billion, a staggering sum given the current size of Syria's GDP. This includes repairing or replacing hundreds of thousands of homes, but the cost will increase as the fighting continues. The UN Economic and Social Commission for Western Asia (ESCWA) recently estimated that the conflict has damaged or destroyed 1.2 million houses—approximately one-third of the total number of houses in the country. Some 400,000 homes have been completely destroyed, 300,000 have been partially destroyed, and 500,000 have sustained damage. Most of the damage has occurred in impoverished neighborhoods of major cities in conflict areas, such as Aleppo, Damascus, Dar'a, Dayr az Zawr, and Homs. A priority for any post-war government will be to repair the pipelines and wells that were destroyed, rebuild refining capacity to its pre-war level, and restore oil exports. An estimated 30 million tons of cement will be needed to rebuild the infrastructure as well as one million cubic meters of water, which Syria does not have.

The contraction of GDP was largely due to damage to physical capital stock and to the loss of human capital as well as to the effects of sanctions that have been imposed by the United States, the European Union and the Arab League. These caused a severe foreign exchange constraint. After financial sanctions and the oil embargo were imposed in 2011, the Syrian economy lost a substantial amount of export revenue and experienced difficulties in financing its foreign trade. The devaluation of the pound and the destruction of the domestic transport network caused inflation to accelerate. According to official figures, the consumer inflation rate rose from 4.7 percent in 2011 to 36.5 percent in 2012 and reached 50 percent in the spring of 2013.

The Syrian economy has traditionally been based on agriculture and oil. Draught caused massive damage to agriculture, especially in the North East of the country. Economic policies further disrupted the rural sector, resulting in protests that led to the outbreak of conflict. Both agriculture and oil have been crippled by the conflict, leaving the economy and the population in disarray. The Syrian economy has traditionally been reliant on the state for coordination and economic management and redistribution. Oil and agricultural products were sold to the state, which exported or redistributed them within the country. This has ceased.

Neighboring countries have felt the impact of the crisis not only in reduced trade through Syria, but also through the increase of geopolitical tensions and fear of a regional war, which could pull in the US and Russia, Israel or Turkey. The war has adversely affected risk perception in the region and the inflow of capital and tourists, which had been the main driver of recent economic expansion in Jordan and Lebanon. Moreover, the rapidly increasing number of Syrian refugees fleeing to Jordan and Lebanon has put an additional fiscal burden on both countries.

The number of refugees who have fled from Syria, mainly to Jordan, Lebanon and Turkey, has increased dramatically in recent months. On January 1, 2013, the UNHCR calculated the number at 475,499; on April 30, 2013, it was 1.216 million, and on May 28, 2013, it reached 1.312 million.

The flood of refugees has had major effects on neighboring economies. Jordan has accommodated about 540,000 so far. According to a study by Jordan's Economic and Social Council, the majority of refugees live in cities across the country, which has resulted in a sudden growth of the population. In Jordan, the cost of hosting one refugee is estimated at $3,525 a year. The study indicated that in the second half of 2011, the cost of hosting Syrian refugees reached $200 million, while in 2012 it jumped to around $830 million. In the last 18 months, the cost exceeded $1 billion, which is nearly three percent of Jordan's GDP. In the last decade, Syria and Jordan had dramatically improved their trade relations and bilateral investments and had plans for further integration, but that has now ended. Jordan, like Turkey, is moving imports and exports through Israel now that Syria has ceased to be a trans-shipment zone.

Lebanon is threatened economically, politically, and militarily by the conflict in Syria. Before the war in Syria broke out, hundreds of thousands of Syrians worked in Lebanon. The additional hundreds of thousands of refugees and laborers arriving in the country could drag down salaries because of the increase in labor supply. The UN claims that at least 474,000 Syrian refugees have entered Lebanon, but experts say the figure could be closer to 700,000 in a country with a population of just over four million.

The crisis in Syria has affected Lebanon's tourism, trade, development assistance from Gulf Arab oil states and even remittance levels from Lebanon's huge expatriate population, which is now even more worried about security in their homeland. Tourist arrivals fell by 17.5 percent in 2012, following a 23.7 percent drop the year before. Industrial production and exports have declined. Consumer confidence dropped 37 percent in 2012, after a 29 percent fall in 2011, and foreign direct investment in Lebanon decreased by 68 percent in 2012. Lebanon is also feeling the pressure directly because it subsidizes basic goods such as bread and flour, and services such as electricity and healthcare. Domestic factors also played a part in the Lebanese economic slowdown, including the political uncertainty that has prevailed since Prime Minister Saad al-Hariri's government was toppled in early 2011.

In April 2013, Turkish government officials estimated that at least 300,000—and more probably 450,000—Syrians were in the country, with each sudden escalation in fighting triggering new influxes. Others report that the number is much larger. The UNHCR believes that the number of refugees could double or even triple by the end of 2013. According to a Turkish government source, the financial cost of Syrian refugees in Turkey has reached $1.5 billion. This includes operational costs such as transportation and salaries of official institutions in 2011 and 2012.

Israeli authorities have confirmed that the trans-shipment of goods to and from Jordan and Turkey has increased. In 2011, some 3,500 trucks carried goods in both directions. In 2012, the number of trucks almost doubled to 6,400. In the first quarter of 2013 alone, there were 2,600 trucks carrying goods in both directions. Trucks from Jordan to Turkey carry mainly agricultural produce, along with textiles and light industrial products. Those transported from Turkey to Jordan include raw materials for industry, packaging and dry food. What started out as Israeli gestures to Jordan and

Turkey have become sources of revenue as well, worth some $60 million a year in port duties, refueling, insurance and other transportation payments.

What are the prospects? The war is likely to go on for months. The total commitment of Iran, the involvement of Hizbullah, and support from Russia have helped the Assad regime not only to survive, but also to reclaim territory from the rebels, most recently in Qusair. The rebels are divided and await decisions in the EU and US regarding arms supplies. Hizbullah's involvement has heightened fears in the Sunni world about an Iranian/Shi'i takeover in Syria, which is likely to lead to more financial aid and volunteers for the rebels. There is also the question of Turkish-Iranian rivalry in Syria. Turkey has blamed pro-Syrian groups for the terrorist attack on May 11 in Reyhanli, five kilometers from the Syrian border, in which 46 people were killed and more than 100 injured. The destruction continues, and the Syrian war has already become one of the worst disasters in modern Middle Eastern history.