

Peace Economics

Why Syria must rein in unemployment, food prices, and corruption to ensure a stable future.

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The Arab Spring rebellions in Tunisia, Libya, Egypt, and Syria raise a crucial question for analysts: Why did authoritarian or kleptocratic rulers lose control over their polities? For decades, these rulers were able to use a combination of repressive and redistributive policies in order to maintain social order. Why did that order break down?

While to date the answers to that question have largely focused on the rising power of internal opposition groups, like the Muslim Brotherhood, alongside the power of new social media to spur political mobilization, serious economic analysis of the underpinnings of these conflicts has been in somewhat shorter supply. Yet clearly, all these rebellions have some economic themes in common, including high levels of unemployment -- especially among the bulging youth population -- reduced levels of growth, falling productivity in the agriculture sector, and real or suppressed inflation. No matter the ultimate outcome of these rebellions, regimes throughout the Middle East and North Africa will need to confront the failures of their long-standing state-led and oil-fueled development model.

As a result of its ongoing civil war, Syria in particular is now faced with a dire social and economic environment. It is estimated that half of all Syrians now live in poverty, with 4.4 million in extreme poverty. Approximately 2.3 million jobs have been lost, affecting an additional 10 million dependents, and economic losses are estimated at between \$60-\$80 billion, or 40 percent of the country's GDP.

The current crisis has much to do with economic problems that predated the conflict -- namely, the fact that economic decisions made by the Syrian state over the past three decades reflected ineffective "social market" policies. The long-standing Baath party first ruled by President Hafez al-Assad and taken over in 2000 by his son, Bashar al-Assad, has operated mostly as a centrally planned economy, but one that operated mainly to the benefit of the minority Alawite elite. For a long while, an unwritten peace between the government and the people was kept so long as the government could engage in a sufficient level of redistribution to make the costs of rebellion higher than the benefits. However, when the economy faced shortfalls in some of crucial areas -- as it did with the 2006-2011 food shortages, when agricultural output declined -- the government could not maintain that social compact.

The Syrian government's failure to provide for the basic needs of its growing population helped spark the current revolt. In particular, increasing food and fuel prices on the one hand, coupled with rising unemployment on the other, led to an eroding sense of economic security. The Assad regime had staked its legitimacy and credibility on creating this security; its failure to do so has undermined its authority.

Post-conflict Syria will continue to face severe structural and economic challenges. The state-dominated economy will need to give way to the private sector, which has been stunted by the regime. High levels of

unemployment and underemployment will need to be confronted, along with high prices for basic goods and services. In brief, Syria will require both economic transformation and economic reconstruction.

Getting to that point will involve addressing several critical issues:

Demography versus economy. Over the past few decades, the basic social contract of the Syrian state was to provide jobs and affordable food to its growing population. However, as population growth has outpaced economic growth (coupled with a drought causing unemployment and food prices to rise), this promise has not been sustainable. For instance, the rising population has been met with a reduction in social services like health care, and unemployment has risen from approximately 8 percent in 2010 to nearly 50 percent today. As a result of an enlarged public sector, educational investments have been relatively high (consistent with other oil-rich states). However, with few jobs available outside the state sector, this has created a growing problem of underemployment and resentment among the youth.

Drought and agriculture. Agricultural production and jobs have been a priority for Syrian economic and social policy. However, losses in this sector have culminated over the past decade and created a situation for economic hardship and conflict leading up to the March 2011 riots. Between 2006-2011, a five-and-a-half year drought that crippled 60 percent of agricultural land and up to 85 percent of livestock in some regions, caused food shortages and price hikes. The drought caused a wave of unemployment (an estimated 800,000 rural workers have lost their jobs in agriculture) and induced migration from rural to urban areas. Further, they caused a huge spike in food prices, and studies have linked sharp increases in food prices to civil unrest.

Compounding the situation, conflict has disrupted agriculture production in essential food items, such as wheat, barley, and vegetable produce, by 50 percent. However the drought in Syria was not random; scientists believe that climate change is largely responsible and a new reality for the region, as it's estimated that rain-fed crops will decline up to 57 percent by 2050.

Oil. With oil rents comprising of roughly 20 percent of GDP over the past decade, oil revenues have provided the funds for an enlarged government presence, crowding out private sector activities. The oil industry has nearly collapsed since 2011 -- production has fallen by 5 percent -- and the economy as a whole is expected to become a net importer of oil, perhaps as early as 2015. The recent decline is due to the seizure of oil wells by rebel groups, heightened transportation costs, and international sanctions banning trade. Moreover, EU and U.S. sanctions against oil exports are estimated to cost \$400 million in losses each month.

Corruption. Since 2003, corruption in Syria is estimated to have grown significantly, as measured by the Corruptions Perceptions Index, rising from 49 to 81 on a scale of 100. Regime insiders, such as Assad family members and close friends, have benefited from the government's central control over the Syrian economy and judicial system, thanks in part to the awarding non-competitive contracts. For example, one businessman has had control over the telecommunications industry with Syriatel alongside prominent stakes in free-trade zones, banks, and other enterprises since Bashar al-Assad, who is his cousin, took over the regime.

In the face of these challenges, however, there are also critical opportunities.

Funding the opposition. Private donors, many based in Kuwait, Saudi Arabia, and other Gulf states, have helped fund and strengthen various opposition groups. These fundraising activities target Sunnis to help overturn the government from Shiite and Alawite sects, and the promise of creating a Sunni Islamist state in Syria is a major "selling point" among supporters. As a consequence of this robust fundraising, extremist sects may have gained relative strength against western strategic interests. It is important for the United States and

its Western allies to take a careful look at financial flows into the opposition and how these may influence the internal balance of power.

Private enterprise. The social market regime in Syria has suffocated opportunities for small, middle-size, and other private business enterprises. For instance, since 1960, the government has nationalized major enterprises, and little credit has been available for those private sector firms that remained in business (this is the general pattern in many oil-producing states in the Middle East). To the extent that a private sector remained, it was largely controlled by a small group of people related to the Assad regime. Not surprisingly, the World Bank's "Ease of Doing Business" score for Syria is 147, well below the regional average of 107. Rebuilding the private sector will be a core task of the Syrian regime in future.

Trade and investment. Prior to 2011, Syria began adopting relatively more liberalized economic policies in line with IMF recommendations and its application to become a member of the World Trade Organization. Without a robust private sector, however, these policies had little effect on economic performance. Since the conflict, Syrian exports dropped from approximately \$2 billion in 2011 to \$95 million in 2013. Rebuilding trade and Syria's participation in the regional and global economies is a major task for post-war reconstruction.

Rebuild financial markets. Strengthening Syria's financial markets will provide the conditions for greater foreign investment, credit, controlling inflation, and debt financing. Such activities will not be possible without first strengthening the currency regime. Currently, \$1 is worth 138 Syrian pounds, which reflects a highly devalued currency that has fallen heavily since 2011 (nearly 75 percent). Several factors are responsible, such as decreased availability and consequently higher prices in food (an over 200 percent price increase), transportation (nearly 250 percent), and energy (more than 300 percent). In an attempt to keep its value, the Central Bank of Syria and the Syrian government banned the use of foreign currency or the exchange of Syrian pounds.

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On the economic front, the pathways to peace in Syria begin with restoring basic services and giving immediate attention and aid to humanitarian and refugee relief efforts. Recent efforts to unfreeze foreign bank accounts to supply food essentials to Syrians in need should be furthered. The new regime should support capacity-building and development programs for a variety of job areas, especially non-public-sector jobs.

Longer-term pathways that are critical for peace include reversing the Assad regime's economic policies, rebuilding infrastructure and institutions, and countering the war economy. Rebuilding the basics, such as roads, homes, and places for health care and education, are desperately needed. As a result of the war, it is estimated that 3,000 schools servicing half of all students were damaged. Many health care and medical workers have become refugees and are unable to support the local needs. For instance, the ratio of doctors to patients has dropped by approximately 84 percent. The rebuilding of destroyed homes alone would cost at least \$28 million in construction and energy costs.

Post-conflict, construction-led growth to rebuild Syria's depleted capital stock will be helpful, but this will require mobilizing foreign investment from a range of private- and public-sector actors. Along these lines, the United Nations Relief and Work Agency estimates that it will take 30 years for Syria to recover to 2010 pre-war levels.

Since 2011, a war economy has developed in Syria; to what extent this has shifted the control of economic resources remains unclear. To be sure, rebels have gained control of some cities and towns that produce oil and agricultural goods, which are sources for government revenue and employment. The shift in control has been a reason for “field burning” by government forces in rebel-controlled areas as a type of economic warfare. The war economy will also manifest itself in the high costs that the regime faces as it pays for its military from diminished coffers. The likely economic effects include a lack of jobs for the civilian population, a weak currency, an increasingly informal or black-market economy, and closed trade routes.

Escaping from this new economic structure will prove challenging, as those who have profited from illicit activities may not have a large interest in supporting a postwar reform process. The situation is comparable to that of Lebanon’s civil war and the war economy it created. Because of the profits associated with the conflict, moving away from a war-time economy required offering a more profitable alternative to the various armed groups. This meant sharing and empowering militias and rebels to have a stake in post-conflict reconstruction, lest they act to undermine a fragile peace.

Mechanisms to make the shift from a war to a peace economy could include job creation; scaling back the public sector; investment support for non-oil, private-sector development; the rebuilding of social safety nets; and limiting direct subsidies.

Major players that have an economic interest in a peaceful Syria include neighboring Lebanon -- a major trading partner interested in regional stability and in the potential for this outcome to weaken Hezbollah. Saudi Arabia is also of interest; a more Sunni-tolerant government could be a major ally in dealings with Iran and can provide considerable financial support for post-conflict development. Other regional winners would include Israel and Turkey.

But most prominently, the average Syrian has the most to gain from a peaceful outcome.

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