

WAR ECONOMY in the SYRIAN CHAOS How internal and foreign trade fuel war?

Countering Conflict economies in Syria and Neighbouring countries
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Civil Society Policy Forum

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**SPRING
MEETINGS**
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Three ASPECTS OF THE WAR ECONOMY IN SYRIA

understanding conflict mechanisms to counter them

1. Internal trade in a fragmented society

- Analysis of war economy through price differentials
- Ongoing work

مبادرة الاقتصاديين العرب



CommonSpace Initiative
for Shared Knowledge & Collaborative Building

2. Foreign trade with a country in war

- Trade between Turkey and Syria

ifri institut français
des relations
internationales

3. Drugs production and smuggling in the chaos of war

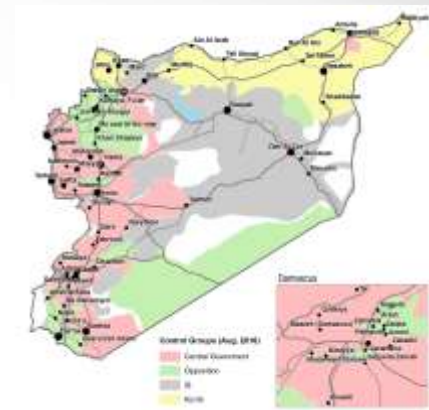
- The case of Captagon



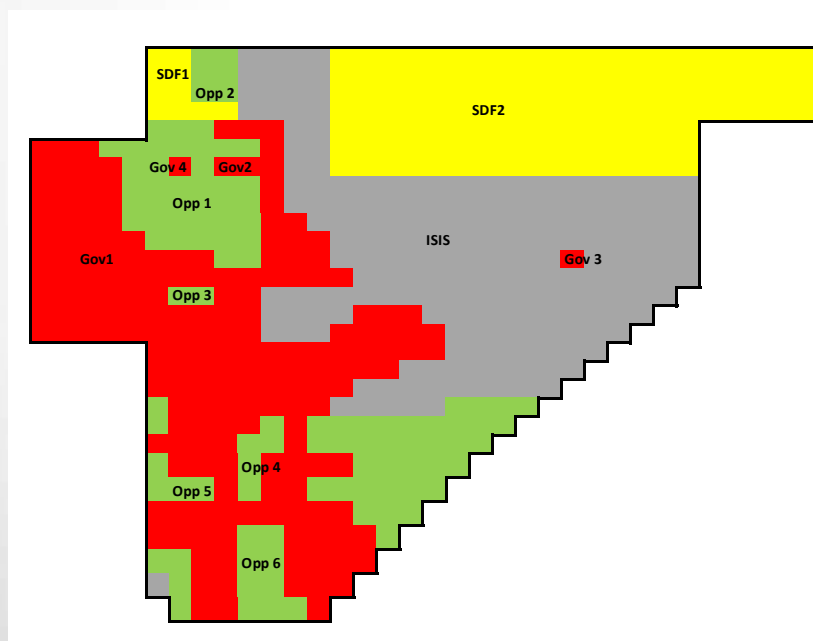
Analysis of the war economy through price differentials

The situation in Syria in August 2016

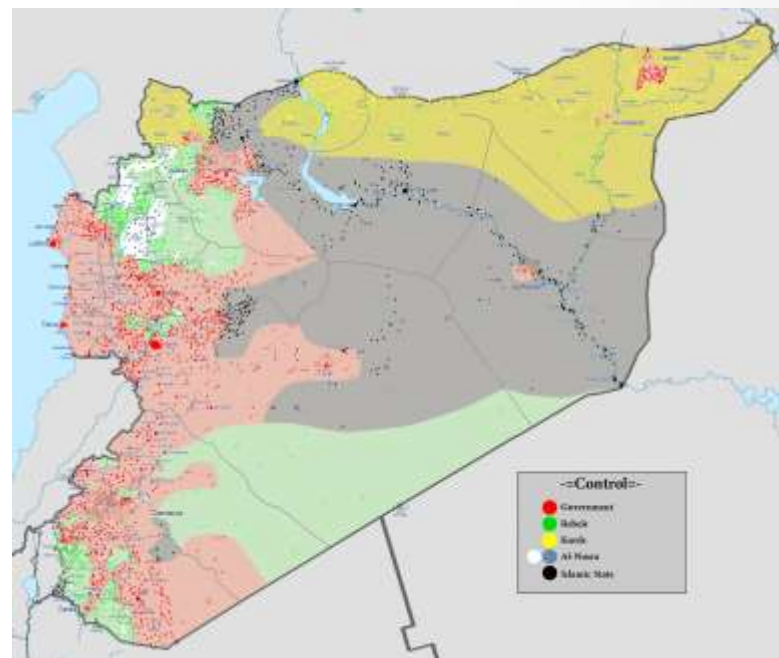
- Prices in **64 cities** analyzed all over the country
- Grouped in **13 zones**, depending on « circulation »
 - 2 zones SDF
 - 1 zone ISIS
 - 4 Zones government control
 - 6 zones Opposition



Representation



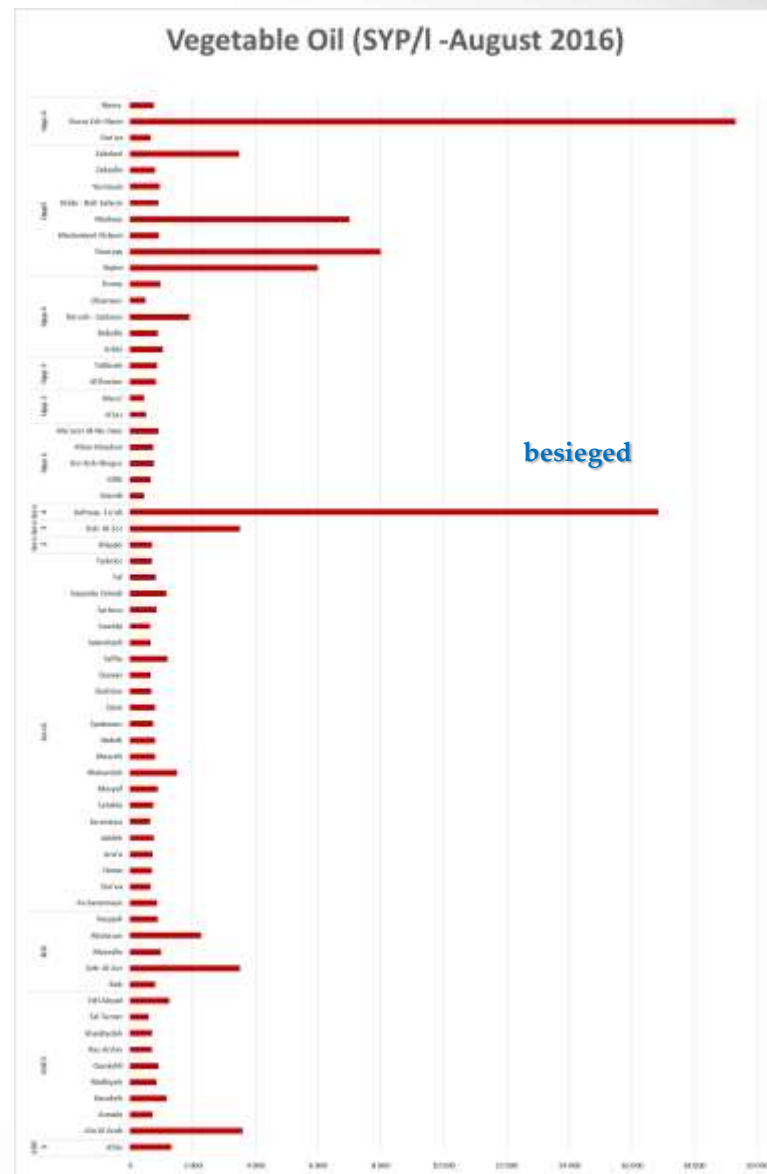
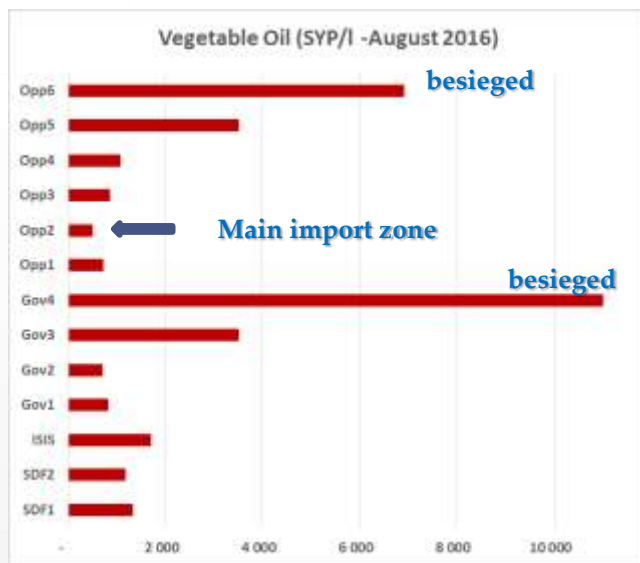
Actual



Analysis of the war economy through price differentials

The situation in Syria in August 2016

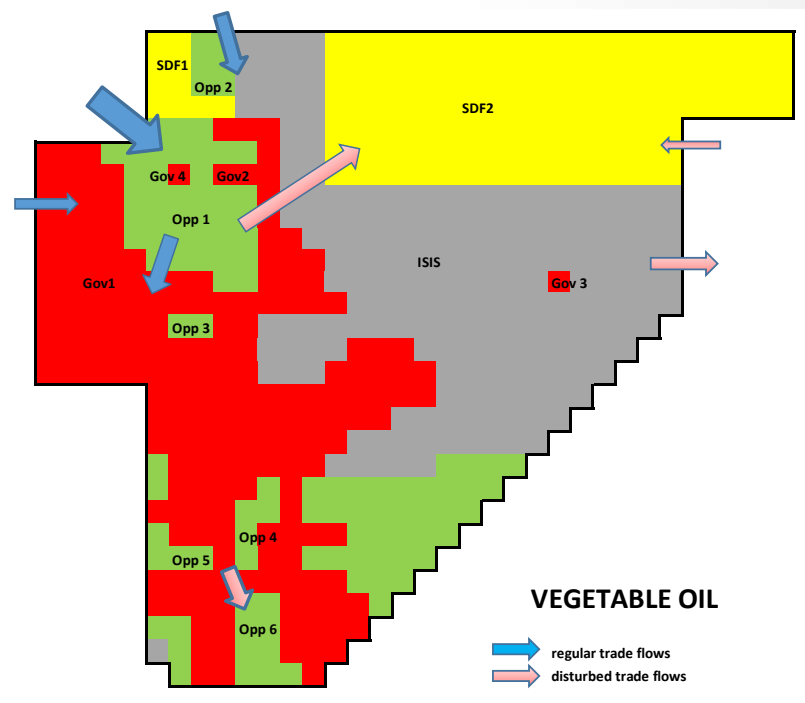
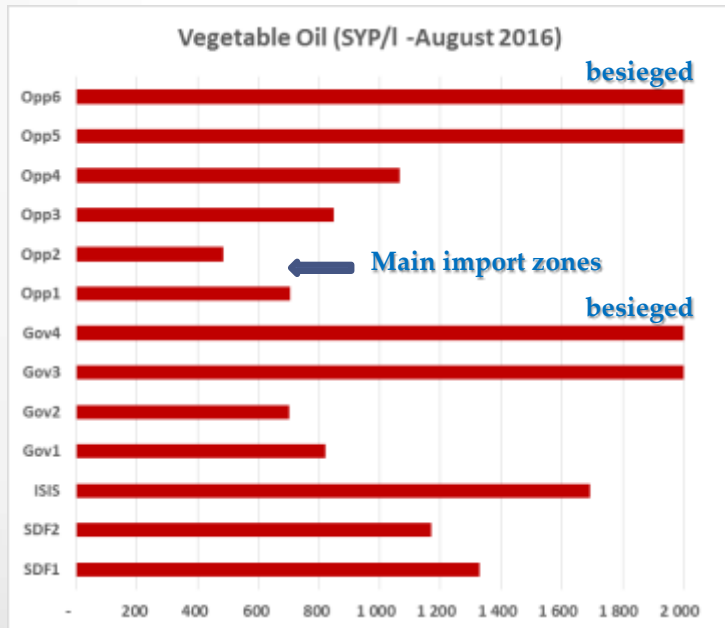
- Assumptions of analysis:
 - Lowest prices where goods are first imported or produced
 - Price increases when crossing « border » between zones
 - If price differential high → smuggling between zones
 - Gov1 = main consumption zone (population, IDPs)
 - Attention subsidization of some goods by government
 - Attention differential between local and imported products (check origin, check relations with Turkey, KRG, ...)



Analysis of the war economy through price differentials

Vegetable oil in August 2016

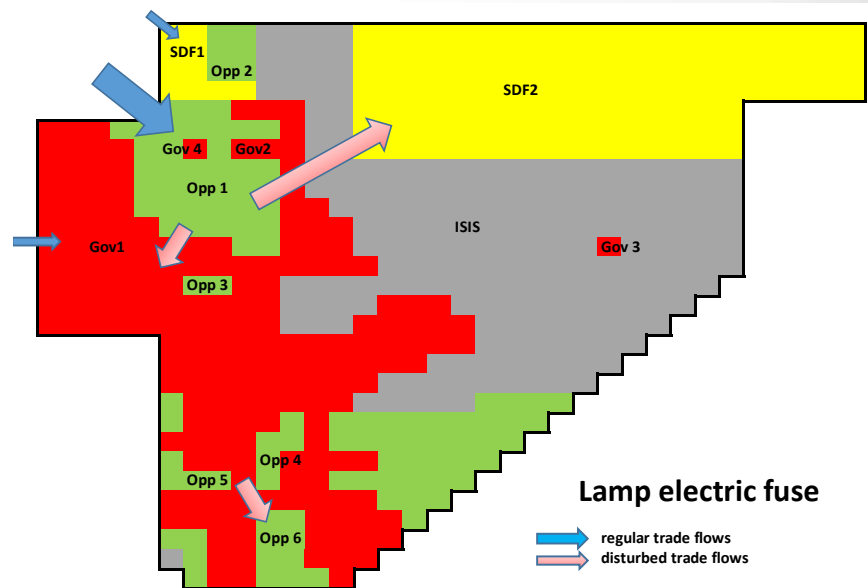
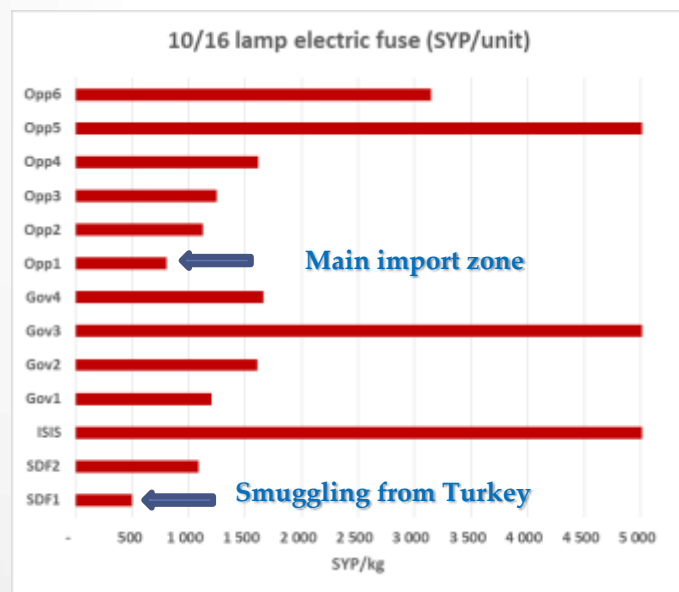
- **Main results for an imported basic good**
 - Lowest prices in Opp1 and Opp2
 - Imports from Turkey (confirmed by Turkish Statistics)
 - « Trade flow » to government areas at low transaction cost
 - Government subsidize prices in the almost besieged Aleppo
 - No significant imports from Jordan or Lebanon
 - SDF2 prices < SDF1 prices !!! → almost no trade between Turkey, KRG and SDF1
 - ISIS average is high because of near Deir Ez Zor



Analysis of the war economy through price differentials

10/16 lamp electric fuse in August 2016

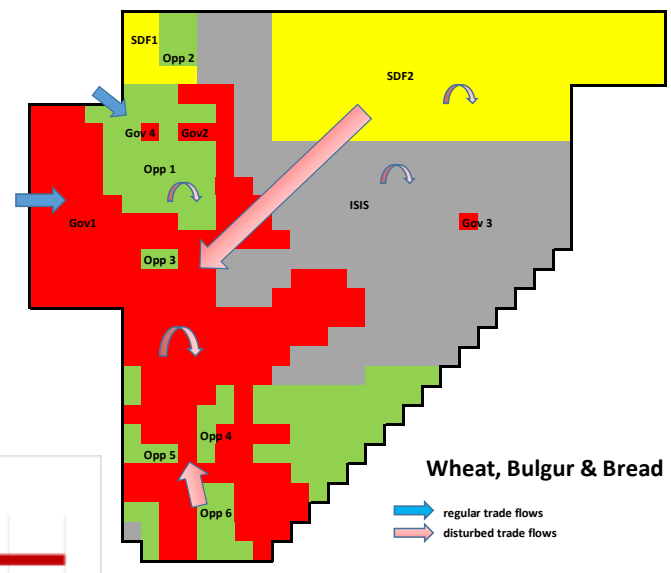
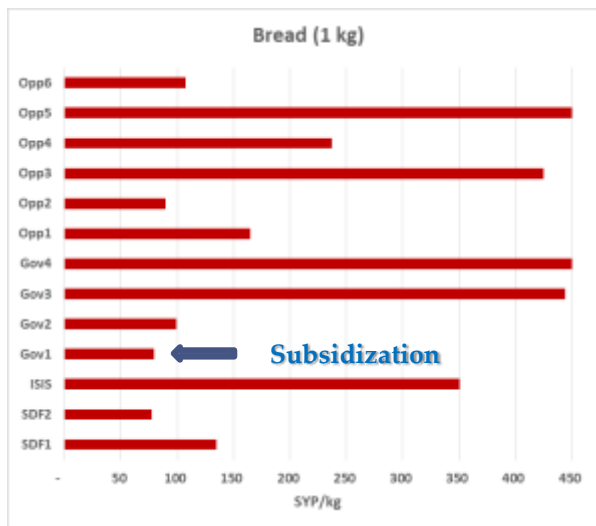
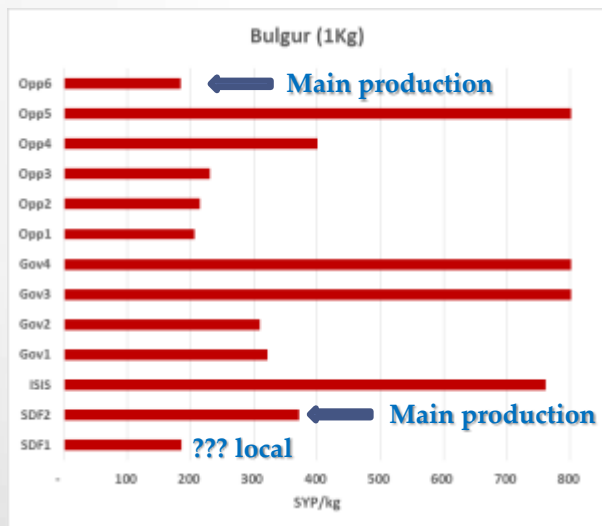
- **Main results for an imported non-basic good**
 - Lowest prices in Opp1
 - Main imports from Turkey (confirmed by Turkish Statistics)
 - « Trade flow » to government areas at low transaction cost
 - No significant imports from Jordan or Lebanon
 - SDF2 prices < SDF1 prices and < Opp1!!! → smuggling route from Turkey
 - ISIS average high because of near Deir Ez Zor



Analysis of the war economy through price differentials

Wheat, Bulgur, Bread in August 2016

- **Main results for locally produced basic good**
 - Lowest prices of Bulgur in SDF1 and Opp6 (production)
 - Lowest prices of bread in Gov1 (subsidization)
 - **Flour Aid to Opp1, Opp2 and Opp6**
 - « Trade flow » to government areas at low transaction cost
 - Government subsidizes prices in the almost besieged **Aleppo**
 - Aid from Jordan
 - SDF1 prices < < SDF2 prices !!!



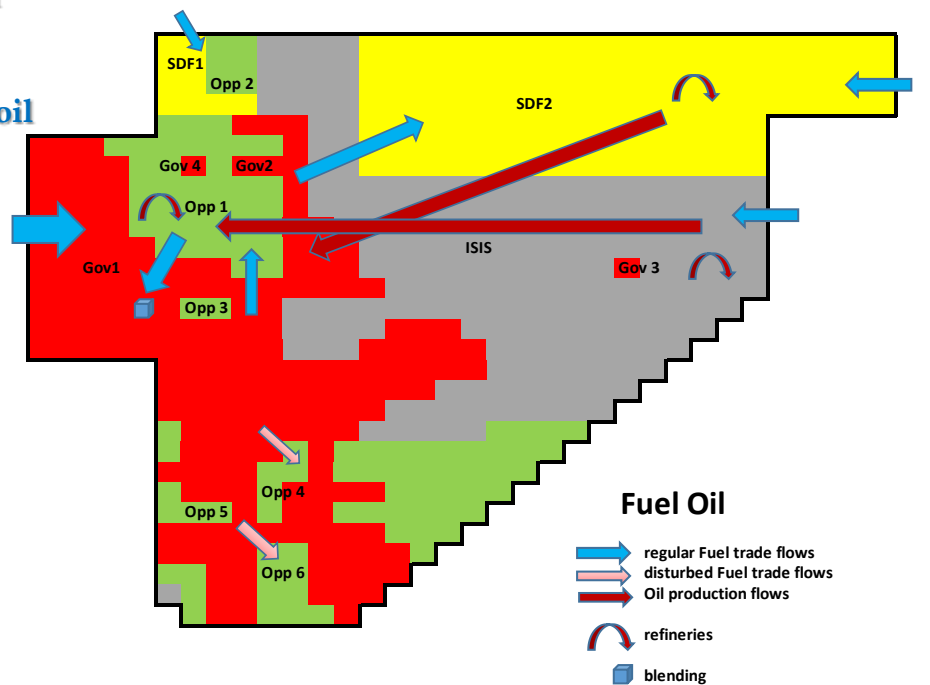
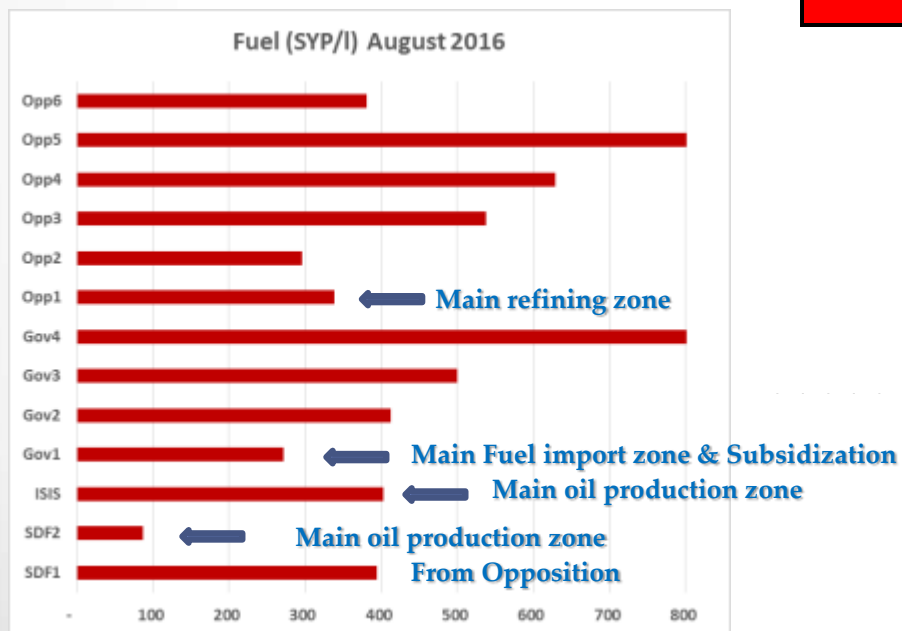
More complex
Wheat → Flour → bread

Analysis of the war economy through price differentials

Fuel oil in August 2016

- Main results for locally produced/imported basic good

- Oil production and bad refinement in SDF2 and ISIS
- Major imports Gov1, major refinement Opp1
- Blending Gov1 subsidized clean + refined local oil
- No subsidies for Aleppo
- Imports from Iraq to KRG and ISIS
- SDF2 prices too low !!!



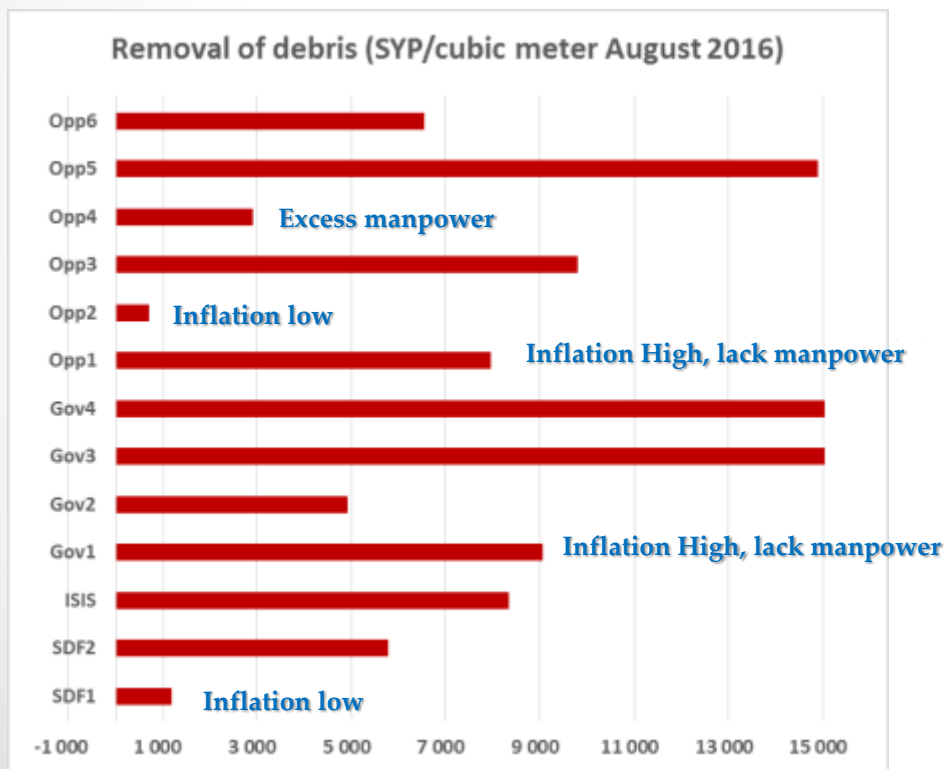
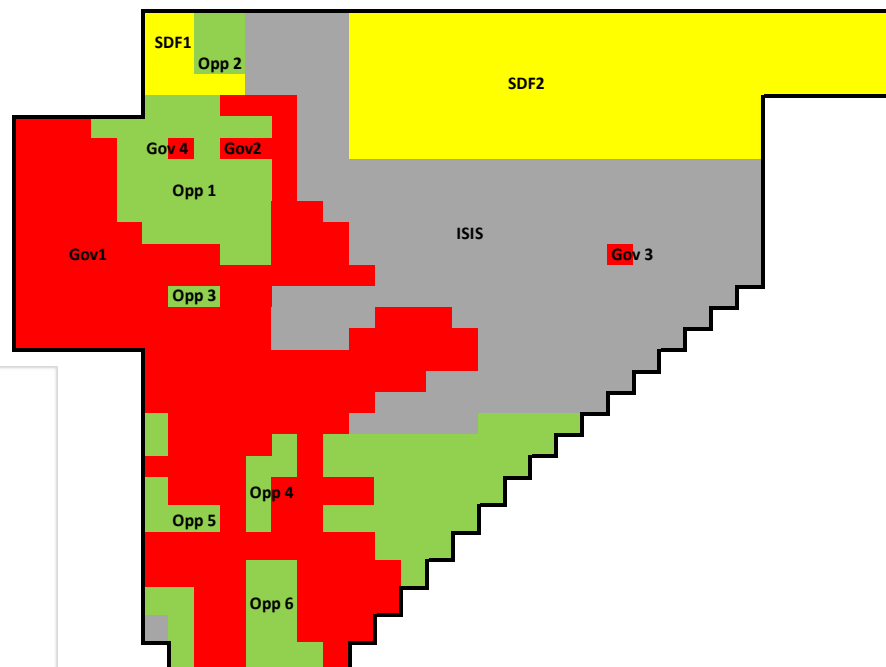
No Gasoline in Idleb,
if no Gasoline in Damascus ???

Analysis of the war economy through price differentials

Removal of debris in August 2016

- **Main results for manpower**

- No movement of manpower between zones
- Depends on local inflation (prices/financial aids)
- And on the availability of manpower
- Large financial flows increase cost of labor

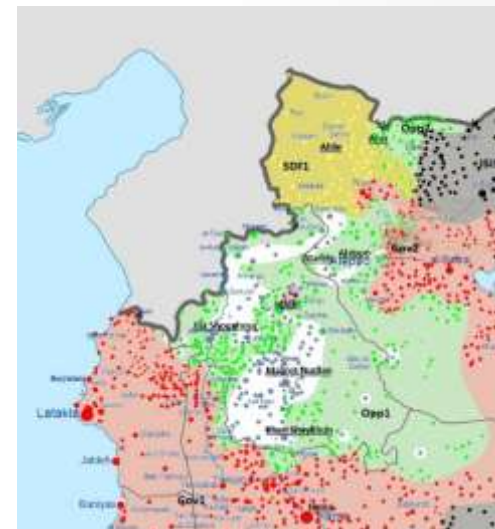
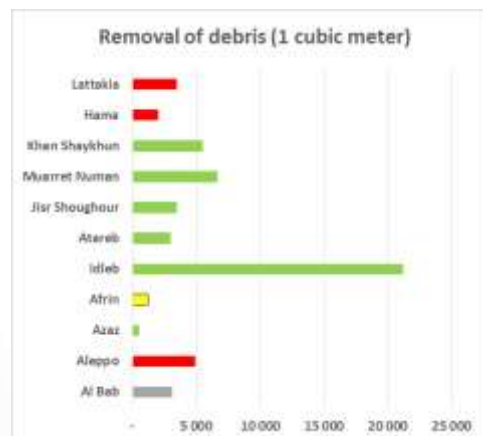
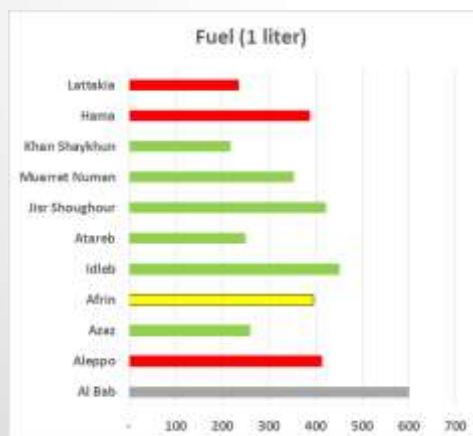
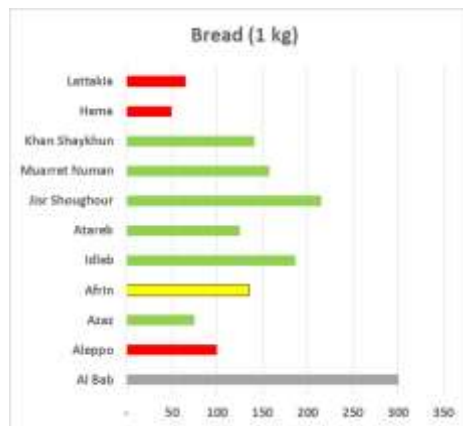
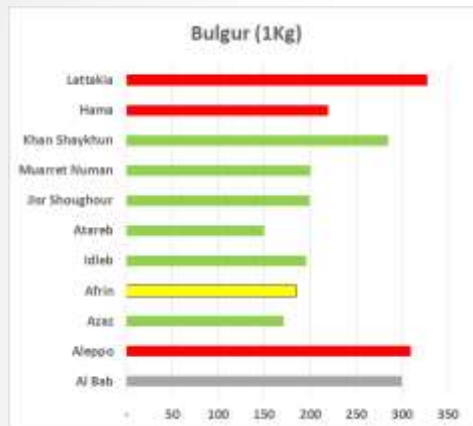


Analysis of the war economy through price differentials

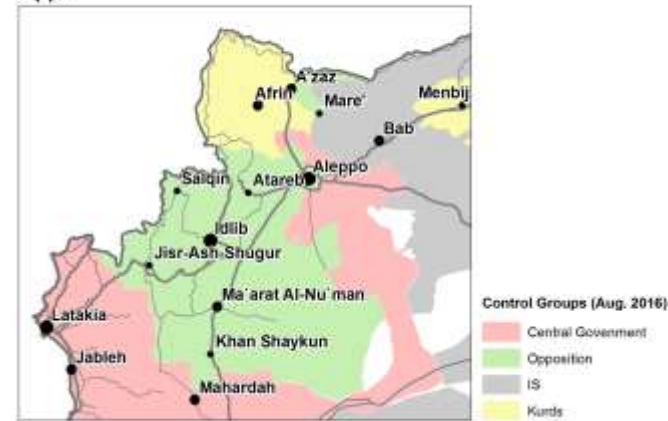
Disparities inside zones in August 2016

- **Main results for Opp1**

- Local disparities higher than cross zones !!!
- Depends on controlling groups and supply route
- And on their relations with other zones



Opp1

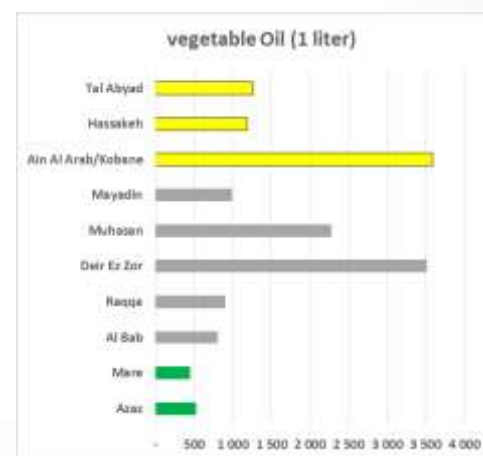
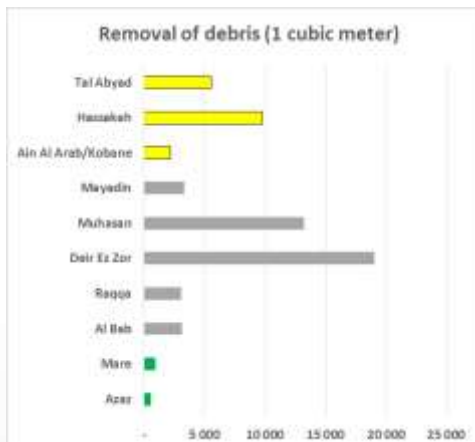
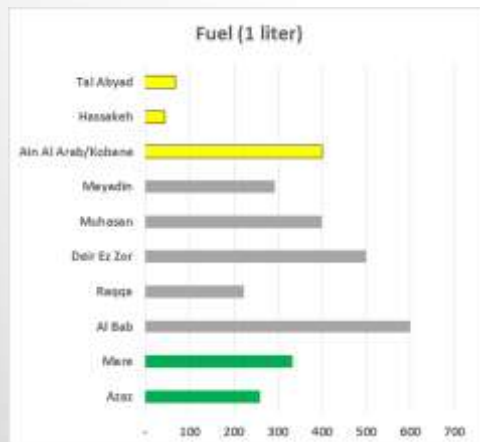
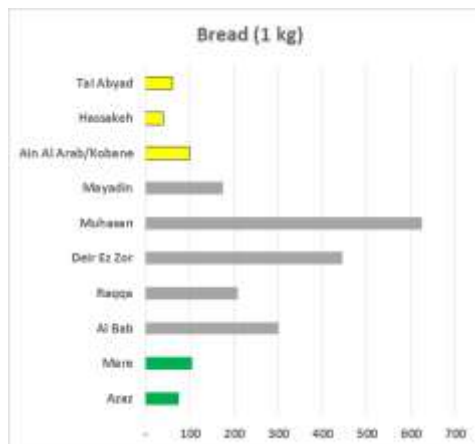
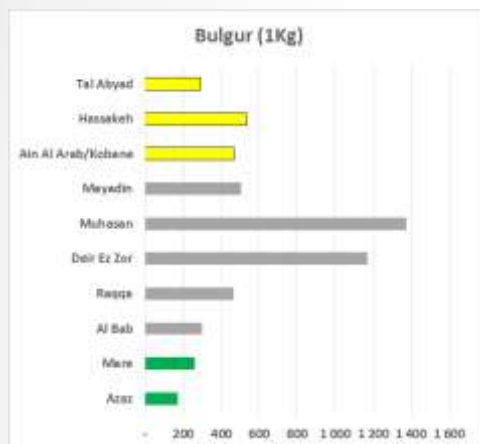


Analysis of the war economy through price differentials

Disparities inside zones in August 2016

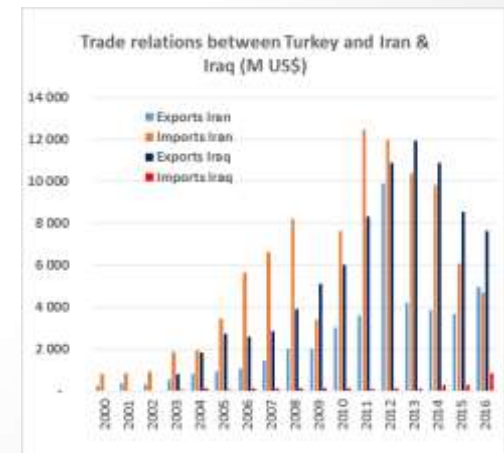
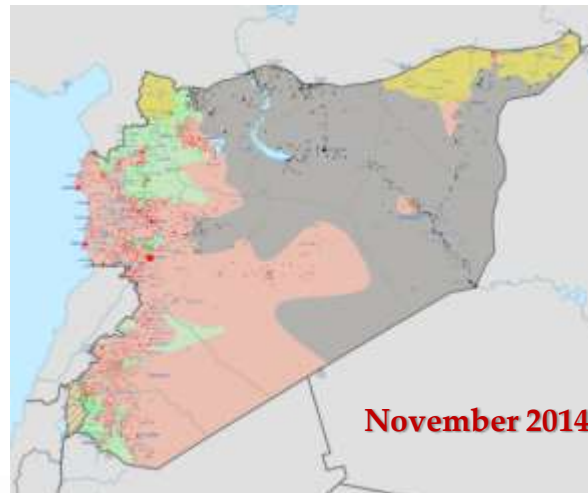
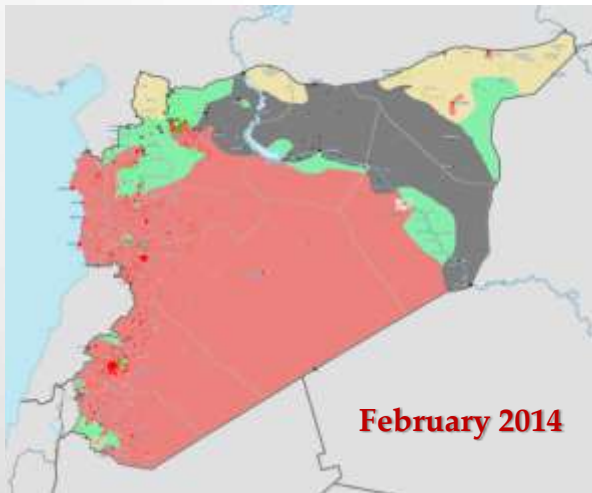
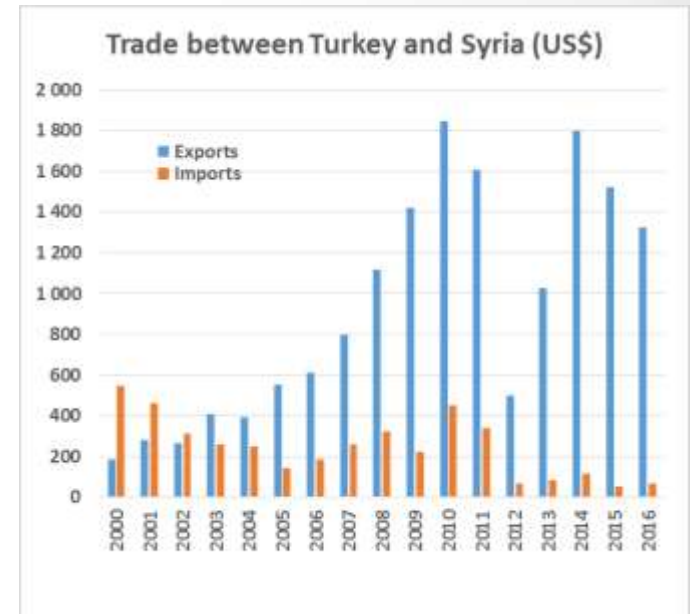
- **Main results for ISIS**

- Main flow of Imports from Al Bab (Turkey)
- High prices in combat zones (Deir Ez Zor)



Foreign Trade between Turkey and Syria during war

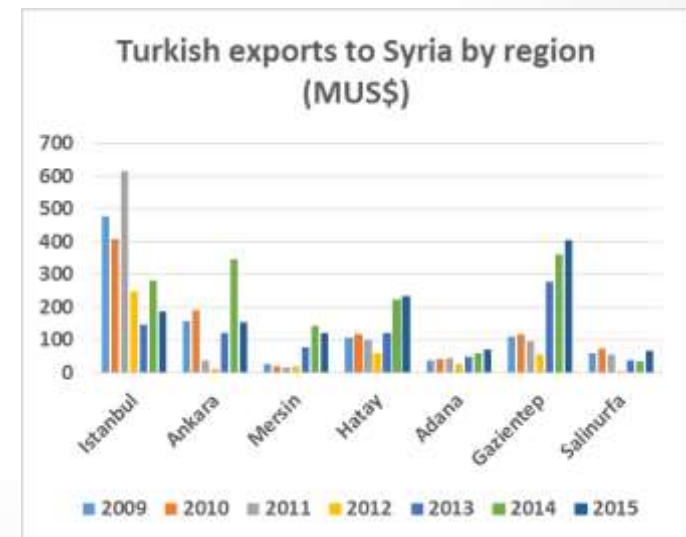
- Trade with Turkey (Turkish official statistics)
 - Turkish exports returned in 2014 to their level of 2010
 - This is while ISIS was expanding
 - Knowing that share of electricity was 7% in 2011 and 33% in 2012
 - Turkish exports 2010 = 3% GDP, 2015 = 7% GDP
 - Lebanon from 0,37% to 1,05%; Jordan from 0,28% to 0,42%
 - While Turkish exports to Iraq and Iran were slowing (Syria in war = 1/3 Iran?!)



Foreign Trade between Turkey and Syria during war



- The exported products changed their nature **from semi-industrial to basic food and consumer**
- The Turkish main regions of origin changed accordingly
- Syria exports are still marginal in each region
- Few companies involved
- The South-Eastern regions of Turkey does not contribute to the trade towards the North-Eastern regions of Syria (Kurds-Kurds relations!)
- Not correlated with Syrian « investments » in Turkey



Syria as a major narcotics producer

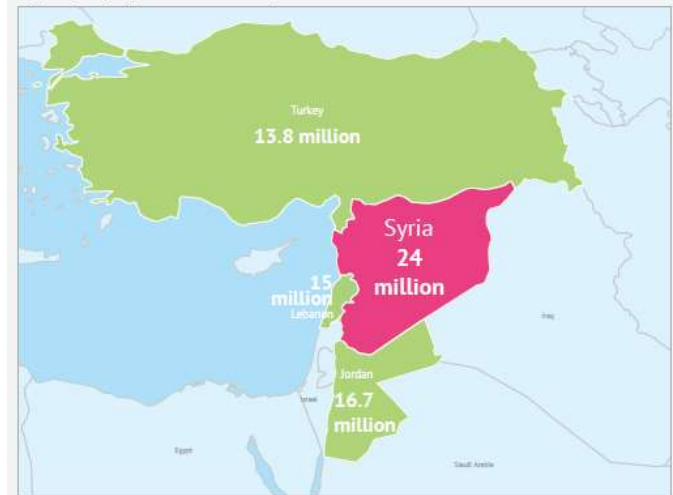
- Syria has become a major **producer of captagon**
 - 2013 Spike in captagon seizures, while Lebanon production dropped by 90%
 - Smuggled from all zones to Turkey, Lebanon, Jordan,
 - Gulf countries major market
- But also **Heroin** and **Cocain** are developing



Nichols & Kravitz 2015

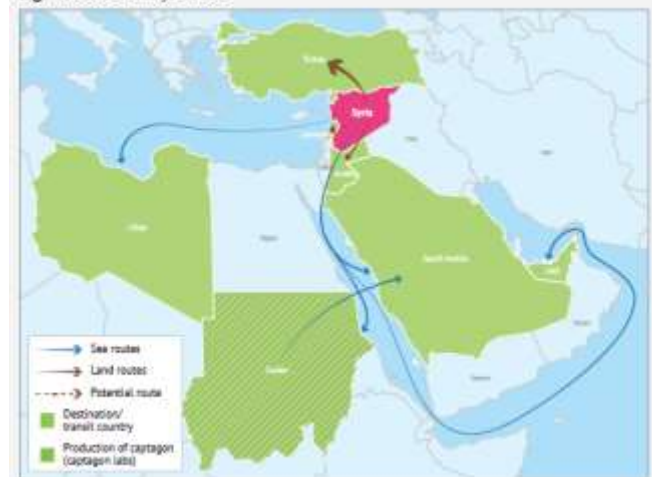
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Figure 5: Captagon seizures for 2015



Current trajectories of captagon, 2016

Figure 6: Current Trajectories



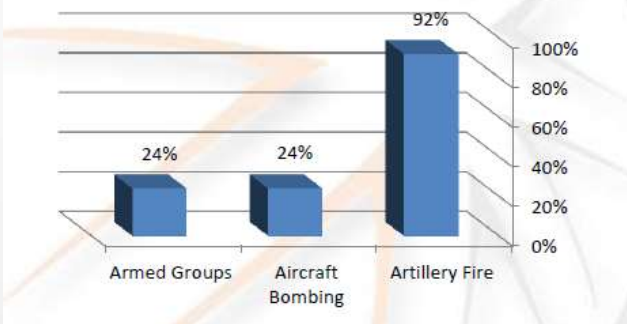
Global initiative against transnational organized crime, 2016

Syria as a major narcotics producer

- Syria has become a major producer of captagon
 - 70 pharmaceutical factories in Syria in 2010, covering 90% of the country needs
 - 7 factories were still operating in 2014
 - Arab countries major provider of raw materials

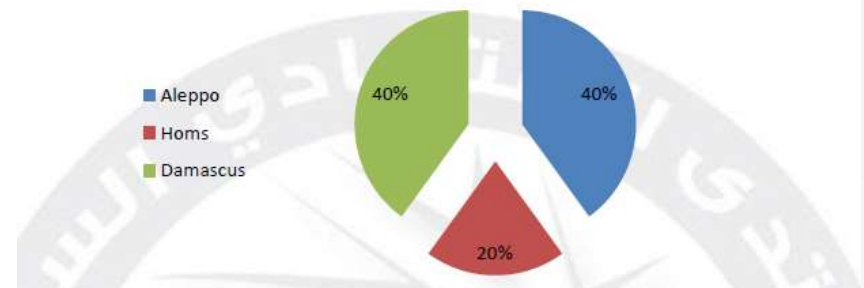


Types of Risks from the Standpoint of Factory Owners

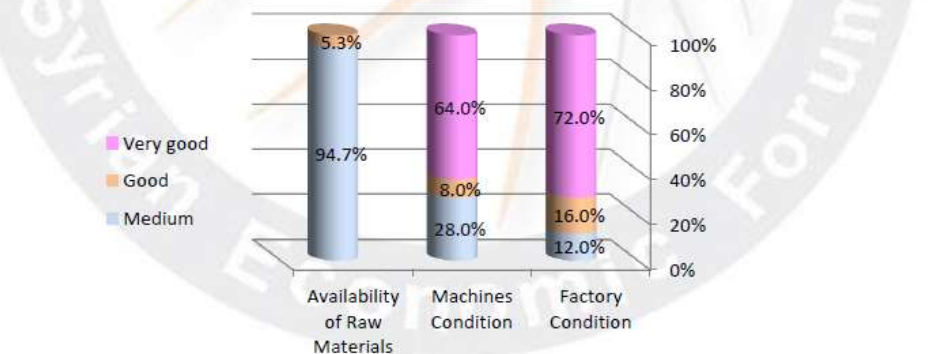


Syrian Economic Forum 2014

Distribution of Pharmaceutical Factories in Syria According to Provinces



Ratios of Pharmaceutical Factories Distribution According to Status of Machines and Availability of Raw Materials



Conculsion and Future activities *understanding conflict mechanisms to counter them*

- **The price differential and foreign trade approach to the assessment of war economy**
 - Promising early results
 - Several moments of the conflict to better understand dynamics
 - Basic assumption :
 - cities organize human and economy spaces in Syria
 - Recovery mechanisms through a city based approach
 - and its interaction with environment
 - Insight on « safe zones » concept
- **Other issues in the path from war economy to recovery and reconstruction**
 - International Aid sustainably and equity
 - Regional planning scheme for recovery (infrastructures and economic activities)
 - Private property/public goods and properties, and the effect of war on assets
 - Confronting criminal economy
 - The meaning of rule of law during transition
 - ➔ the management and institutional aspects of transition from war to recovery

