

The Slim Prospects for a Complete Economic Recovery in Syria

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The civil war in Syria that erupted in early 2011 has ravaged the country and changed its face entirely. Out of 24 million residents prior to the war, about six million fled to Turkey, Jordan, and Lebanon, while another three million have been displaced within Syria itself. Most international efforts focus on finding immediate solutions for the hardships of the refugees, while very few studies tackle the problems involved in launching a planned and funded comprehensive reconstruction process. Without such a reconstruction process, any arrangement for Syria's political future is liable to encounter obstacles and foment persistent instability inside Syria and in neighboring countries where millions of Syrians have sought refuge. At this stage, there are more questions than answers, and presumably the questions will persist for a long time. Israel has a direct interest in several questions pertaining to the reconstruction process, including: what kind of regime will rule in Damascus, who is involved in funding and reconstruction, and which regions and economic sectors will benefit most from the reconstruction process.

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The Magnitude of the Devastation

Any war of the scale that has waged in Syria over the last eight years is devastating to society, infrastructures, basic services, production capacity, and housing. Therefore, an initial basic question involves measuring the magnitude of the devastation in order to gain an understanding of how to devise a solution. Given the very high number of casualties and wounded, the three million people displaced inside Syria itself, and the six million

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refugees who fled from Syria, as well as the scope of the economic damage, the civil war in Syria is among the largest disasters since World War II. The following is an illustrative summary of the dimensions of the devastation, based mainly on a comprehensive report from the World Bank.¹

Destruction of Infrastructure

- a. Residential buildings: in the Aleppo governorate, 320,000 housing units (out of 890,000) were destroyed or damaged; in the Damascus governorate – 103,000 housing units; and in Idlib – 47,000 housing units.
- b. Water infrastructure: Syria suffered from water-related problems even prior to 2011, the combined result of drought, mismanagement of the water economy, and poor rainwater collection. The war exacerbated the situation. In the governorates examined in the survey, two thirds of the water treatment facilities, and likewise half of the pumping facilities and a quarter of the sewage treatment facilities were destroyed. One sixth of the water wells were destroyed.
- c. Electricity: the national power grid was left in reasonably operable condition. Two power plants, in Idlib and in Aleppo, were damaged. Nevertheless, electricity generation has plummeted by 62 percent since 2011, mainly due to a shortage of fuel.
- d. Transportation: prior to the civil war, there were about 45,000 kilometers of paved roads in Syria. In the Aleppo area, one third (about 1,500 km) of the roads were damaged; in the Homs region, 200 km were damaged, out of about 1,300 km); and in the Daraa district – 100 km out of 650 km.
- e. Aviation: of the three international airports – Damascus, Aleppo, and Latakia – only the airport in Damascus functioned in 2017.
- f. Healthcare services: in the ten cities examined in the World Bank survey, 16 percent of the healthcare facilities were completely destroyed, and 42 percent were partially damaged. In Aleppo, 35 percent of the healthcare facilities were destroyed, and in Daraa, 69 percent of the health service infrastructures were partially damaged. In addition, medical equipment and devices were destroyed.
- g. Education: some of the forces participating in the war used schools as command posts and shelters. About 15 percent of the buildings used as schools and academic institutions were destroyed. About 57 percent of the facilities used for educational purposes in 2011 are still operating today, albeit without a full supply of water and electricity.

Damage to Economic Sectors

- a. GDP, which was \$60 billion in 2011, dropped to \$15 billion in 2016. Prior to 2011, 25 percent of Syria's income derived from the energy sector. Since 2011, oil production has plummeted by more than 90 percent, as did the production of natural gas, after the Islamic State destroyed the production facilities.
- b. The agricultural sector, which was adversely affected by the water problems and the war, shrank by 41 percent, after it had already dropped by 10 percent in 2010.
- c. The tourism sector, which developed impressively until it accounted for 8 percent of GDP in 2010, stopped functioning nearly altogether, although some recovery was evident in 2018.
- d. With regard to industry, in Aleppo, where the majority of Syria's industrial activity is located, 67-81 percent of the four industrial zones were destroyed. Because of the war, many manufacturers relocated to safer areas inside Syria itself, or to neighboring countries and to Egypt. One of the main indications of the destruction of the manufacturing infrastructure was the dramatic drop in exports, from \$7.9 billion in 2011 to \$631 million in 2015.
- e. Foreign currency reserves in the central bank, which are an indicator of a country's survivability, dropped from \$21 billion in 2010 to less than \$1 billion in 2015.
- f. The unemployment rate rose to 53 percent of the entire population, and to 78 percent among the young generation. Three out of every four Syrian workers are not engaged in work that generates added value. Therefore, the statistic that 60 percent of the population live under conditions of extreme poverty is not surprising.

The report acknowledges that data collection is problematic due to the conditions prevailing in Syria. It emphasizes that the tangible damages do not reflect the long range damage created by the loss of human capital, the destruction of the economic system, and the loss of economic initiatives.

Who Will Decide the Main Reconstruction Questions?

At this stage, questions about the reconstruction of Syria, especially the political questions, are not debated in any serious professional study, and most of the international activity is channeled to assistance in providing immediate answers to the humanitarian problems, mainly in Syria itself, and assistance to Syrian refugees in neighboring countries. Any comprehensive

discussion will be influenced by the political reality in Syria and the standing of President Assad in the overall political order, and by the implications of this political reality for the decision making process and the debate itself. Countries that operated in Syria during the war and those with funding capabilities have strategic considerations – primarily political but economic as well – and they are not necessarily compatible.

The dearth of discussion about long range reconstruction, relative to the magnitude of the problem, derives mainly from the deep disagreement within the relevant international community (with its political weight and its financial capabilities) about the future of the current regime in any future political solution in Syria. The European Union boasts it is the largest donor to the immediate reconstruction efforts – 11 billion euros since 2011. However, when it comes to long range reconstruction, the EU has adopted a much more rigid stance. The High Representative of the European Union (who is essentially the EU’s Minister of Foreign Affairs) declared on March 15, 2018 that “the EU will be ready to assist in the reconstruction of Syria, only once a comprehensive, inclusive and genuine political transition is firmly in place in accordance with UNSC Resolution 2254 and the 2012 Geneva Communiqué.”² Security Council Resolution 2254 of December 2015 adopts the announcement of several parties, including the United States, Russia, Turkey, France, Britain, the Arab League, and the European Union, which convened in the United Nations headquarters in Geneva on June 30, 2012. On “the perspective for the future,” all agree that Syria must be “genuinely democratic and pluralistic, giving space to established and newly emerging political actors to compete fairly and equally in elections,” and comply with international standards on human rights.³

The United States, which was a senior partner in achieving the Geneva declaration and Resolution 2254, also made them a precondition to its participation in the reconstruction efforts. Furthermore, the President’s announcement on December 19, 2018 on the withdrawal of American troops from Syria limits and in fact essentially eliminates any chance of significant US involvement in the process.⁴

The current situation in Syria is far from the political vision envisioned by the countries that convened in Geneva nearly seven years ago, and it is highly unlikely that the foreseeable future includes changes that will bring Syria closer to the objectives set down during the Geneva summit. If the major potential donors, such as the United States and the European Union – which also wield considerable influence over decision making by

international financial institutions, such as the World Bank – continue to make economic reconstruction contingent upon progress in the political framework in Syria, it is doubtful that any comprehensive reconstruction process will be launched.

Respective Considerations of the Major Players

President Assad

President Assad’s blood-soaked victory in the war, his road to victory, and his entire mode of conduct since he succeeded his father two decades ago show that the chances are slim that he will adopt even a portion of the framework adopted in Geneva in 2012. In the seven years since then, he and the countries that supported him and saved his regime – particularly Russia and Iran – succeeded in nearly eradicating the Islamic State completely and in overpowering most of the local Syrian forces that actively opposed the regime. The regime today already controls large sections of the country, apart from border regions with Turkey and Iraq. In these circumstances, there is little chance that Assad will suddenly turn magnanimous and sacrifice his government for the sake of promoting the full reconstruction of Syria for its remaining inhabitants or those who seek to return. On the other hand, Assad’s regime has an interest in controlled reconstruction, where it can dictate objectives and direct implementation – provided it does not necessitate the conditions imposed by the international community in Geneva and in Resolution 2254, since complying with these conditions is liable to jeopardize his survival.

Already now, even before a reconstruction plan is formulated that involves external actors, Assad is exerting efforts to return life to normal in cities and regions where the citizens remained loyal to his regime. Homs is an example of a city whose non-Sunni residents helped the regime eliminate the rebels, the majority of whom were Sunni, and later encouraged Sunni residents to flee; these efforts are now rewarded by the regime.⁵ The Syrian President also apparently sees positive aspects to the outcomes of the war, and already in the first half of 2017 said that while it is true that Syria has lost its young generation and its infrastructure, it gained a healthier and more homogeneous society.⁶ He himself does not often refer to the issue of the Syrian refugees, and it is highly doubtful that he wants them to return to Syria. Presumably among the six million Syrians who fled there were many opposed to the regime, and the more their return is delayed or denied, the smaller the reconstruction burden will be. If the Syrian regime

exhibits any willingness to absorb refugees in the future, it will be selective and likely give priority to the wealthy, so that the cost of absorbing them will be lower, and so that they contribute to resumed economic activity. In this way, the regime will be able to fend off allegations that it is actually preventing the return of refugees.

At this stage, the Syrian regime is not under international pressure to repatriate refugees. The opening of the border crossing between Jordan and Syria ostensibly enables Syrian refugees to return, but the regime has instituted various measures in order to make it difficult for those seeking to return. For example, men up to the age of 43 who return to Syria are under a compulsory draft order to join either the military or another security service six months after they return. There has also been much publicity about Law 10, which enables the government to expropriate private land for development purposes, and anyone seeking compensation was supposed to have submitted his application along with documents proving ownership within one month of the promulgation of the law. International pressure (mainly by Russia) postponed the deadline to one year after the law was announced.⁷

The current mode of international assistance is apparently what is preferred by the regime in Damascus. President Assad himself assesses the sum required for reconstruction at \$250-400 billion,⁸ but these sums are contingent on preconditions that are unacceptable to Assad. On the other hand, during the war years, the international community agreed to grant substantial sums of humanitarian assistance to Syrian civil society and to refugees in neighboring countries in order to help them survive under extreme conditions. A major conference of donor countries was held in Brussels on April 25, 2018 under the joint auspices of the European Union and the United Nations, with the participation of 57 countries, 10 regional organizations and international financial institutions, and 19 different UN agencies.⁹ At the conclusion of the conference, it was announced that a total of \$4.4 billion was pledged for 2018, while a sum of \$3.4 billion was donated for 2019–2020. In addition to these grants, several countries and various financial institutions such as the European Bank, the European Investment Bank, and the World Bank agreed to provide \$21.2 billion in loans under easy terms. Although the concluding statement of the conference's joint chairs referred to Security Council Resolution 2254, it was not mentioned as a precondition. The funds that have been granted to date were utilized to improve infrastructure and to restore residential buildings – actions

that the regime takes pains to publicize as proof of its efforts to repair the devastation and improve the conditions for its citizens.

External Actors

Several external political and other actors that operate in the Syrian arena are interested in a different and varied model for Syria's long range reconstruction. Countries that already have a military and political presence in Syria also have an interest in strengthening their influence and reaping economic profits in sectors that are expected to generate revenues once the reconstruction process is completed. Russia and Iran invested massive sums in stabilizing Assad's regime against the rebel forces and the Islamic State, and they expect that accelerated economic activity in Syria will help companies partially recoup the military expenditure incurred in the efforts to defend Assad's regime. Russian and Iranian companies that are already operating in Syria are promoting reconstruction of the energy, petrochemical, and tourism industries.¹⁰ While Russia focuses mainly on oil and gas exploration, Iranian companies entered the power plant sector and the telecommunications sector. The Iranian company MAPNA constructed a gas-powered power plant in Latakia that will generate 540 MW, and another Iranian company, Iran Power Plan Repairs, engages in repairs of damaged power plants. Iran will also construct a new power plant in Aleppo that will generate 125 MW. The Iranian telecommunications company, TCI, won a service provider concession and succeeded in ousting the Syrian service provider from its top position in this sector.¹¹ The implementation of these and other concessions entails enormous investments, and it is doubtful whether Russia and Iran will be able to carry them out alone in the long range. Consequently, President Putin has invited European leaders several times to join the reconstruction efforts, but thus far, without success.

On the other hand, the United States and EU countries have remained steadfast in their positions and conditioned their involvement in long range reconstruction efforts on profound political change in Syria. Even prior to 2011, they showed no economic interest in Syria, and given the considerable influence of Russia and Iran, the American and European sanctions against Syria, and the uncertainty about Syria's ability to repay the investments, Western companies are increasingly averse to investment in Syria. Already in August 2018 President Trump announced that the United States will discontinue its participation in the international funding for Syria, and it is thus not involved in the humanitarian assistance efforts.¹² Moreover,

the withdrawal of US troops from Syria proves, *inter alia*, that President Trump is not bothered by Russia and Iran's nearly absolute political-security control over Syria, or by their taking control over vital economic sectors. The European Union, which was unsettled by the wave of refugees from the war zones and impoverished regions in the Middle East (as well as in Africa and central Asia), found a solution, at least temporarily, in offering a financial incentive to Turkey to close its borders to refugees attempting to enter and pass through its territory en route to Europe. Clearly, the EU's interest in Syria's reconstruction has also diminished, and it has aimed to repel those Syrian refugees who did succeed in reaching Europe – an attempt that revived the ideological dispute in Europe and played into the hands of extreme right wingers, who peddled the “refugee threat” to Europe.

China is one of the few countries with the financial and technological capabilities of contending with the challenge of Syrian reconstruction. China's interest in the Middle East derives from the number of votes of the Arab-Islamic bloc in international institutions, from the region's being China's main source of energy, which is vital to its burgeoning economy, and from its being an important link in President Xi Jinping's One Belt, One Road initiative, which is supposed to link China to Europe via two main channels – the overland belt and the sea-based road. The overland Silk Road Economic Belt crosses central Asia and Turkey, but from China's perspective, it might also branch off southward toward the Mediterranean Sea. Chinese investments in Syria, therefore, are based on strategic interests, especially since Beijing does not share the American-European set of moral and political considerations with regard to the future regime in Syria. Indeed, official spokesmen of both Syria and China have spoken favorably about Chinese involvement in the reconstruction efforts. China has provided \$2 billion for this purpose, and both sides emphasize that Syria can constitute an important link in One Belt, One Road.¹³ At present, however, Chinese involvement in Syria is limited, apparently given its reluctance to invest in a country that still contends with internal confrontations, and Syria's insignificant strategic value to China. True, China did deploy a military presence in Djibouti, for example, despite the instability in the region, but there is no doubt that its location on the marine route from China to Europe constitutes a key consideration in this regard. Furthermore, the possibility of colliding with some Russian vital interest may also be a deterring factor in China's thinking about Syria.

There is an interest in involvement in the Syrian reconstruction process among countries in the region, out of the assumption that businesses from these countries will be able to benefit from the resources to be injected into the efforts. Companies with funding capabilities in Jordan, Lebanon, and Turkey are likely interested in a chunk of the reconstruction activity, but they have no advantage over Russian, Iranian, or US companies that bring with them greater funding potential.

Israel

After nearly eight years of war, President Assad's balance sheet is mixed. Unlike Saddam Hussein, Muammar Qaddafi, or Husni Mubarak, he and his regime survived, but he no longer commands the undisputed standing that he enjoyed prior to the civil war. It is doubtful that in the future he will rule over the entire territory of Syria, because it is unclear if and when all of the non-Syrian forces will withdraw (e.g., Turkey's forces and the militias sent by Iran). Some of the forces (such as Hezbollah forces) were sent in order to defend the regime, but this does not necessarily mean that the Syrian President can determine when these forces leave. Assad's survival was also made possible thanks to Russian and Iranian bayonets, and apparently, Russia and Iran have deepened their grasp on Syria, because they also initiated a reconstruction process and have taken control over vital infrastructure services.

Israel's preferred idea of Syria's reconstruction resembles the model demanded by the United States and European countries, on the assumption that a regime that approaches the standards imposed by the West and benefits from massive Western assistance will be less prone to considerable influence from Tehran and Moscow. However, there is not much chance of the Western vision materializing. From Assad's perspective, the fact that six million Syrians fled their country has improved his position, because as a result the number of opponents to his regime from inside Syria has diminished; Russia and China provide him with a political umbrella; and he is willing to forfeit Western assistance and thereby avoid a political process of national reconciliation, which would entail ending his rule.

Under these circumstances, Israel is forced to resign itself to a long term Iranian presence in Syria, which also extends to strategic issues, such as national infrastructure. Even if it wanted to, Israel will not be capable of preventing Iran from establishing an economic base and strategic infrastructure in Syria. Were the United States and European countries

willing to change the conditions they posed to Assad and link the receipt of massive assistance to a demand to eject the foreign forces that entered Syria “at his request” or with his consent, and to a demand that he cooperate with an international reconstruction management mechanism, Assad might overcome his hostility toward the United States and rejection of the Western conditions. But this at best is a remote possibility, which means that Israel is incapable of influencing Russian and Iranian involvement in long term reconstruction which, from its viewpoint, affects its vital interests.

At this stage, the regime’s efforts in Syria focus on reconstructing areas that are crucial for increased civilian support, and particularly the city of Aleppo, the economic hub that was severely damaged during the war. This reconstruction effort still focuses on areas far from the Israeli-Syrian border in the Golan Heights, and issues such as reconstruction target areas and the relevant responsible parties are still not worrisome. On the other hand, the telecommunications company TCI, for example, is under the control of the Iranian Revolutionary Guards. If telecommunications operations bring it close to the Israeli-Syrian border, Israel is liable to end up facing a dilemma.

The withdrawal of the US troops from Syria increases the need to strengthen the Israeli-Russian dialogue, which currently engages mainly in military matters, to try to coordinate on political-strategic issues, including aspects of the reconstruction efforts. The cooperation between Russia and Iran in Syria does not mean that they agree on all subjects, and presumably they also compete against each other for concessions. An Israeli perspective on particular reconstruction matters could prompt Russia to take action in Damascus against awarding a particular project to Iranian parties.

The reconstruction of Syria will be a long process, even if conducted in limited fashion, due to the lack of financial resources for an accelerated process. Some aspects and events relating to reconstruction can become catalysts for a political arrangement, but also causes of unrest. All of these require constant Israeli monitoring and the inclusion of this matter in the political dialogue that Israel conducts with the countries involved in the political, economic, and military processes in Syria.

Notes

- 1 The data are taken from a comprehensive report by the World Bank: “The Toll of War: Economic and Social Impact Analysis of the Conflict in Syria – Key Facts,” July 10, 2017, <https://bit.ly/2RsthHa>.

- 2 "Syria: Declaration by the High Representative Federica Mogherini on behalf of the EU," March 15, 2018, <https://bit.ly/2H6YsME>.
- 3 General Assembly, Security Council, "Final Communiqué of the Action Group for Syria," June 30, 2012, published on 6 July, 2012, <https://bit.ly/2TMaoLY>.
- 4 Joint briefing of the two senior government officials on August 17, 2018, Briefing on the Status of Syria Stabilization Assistance and Ongoing Efforts to Achieve an Enduring Defeat of ISIS, Special Briefing, August 17, 2018, <https://www.state.gov/r/pa/prs/ps/2018/08/285202.htm>; for the President's announcement, see Mark Landler, Helene Cooper, and Eric Schmitt, "Trump Withdraws U.S. Forces from Syria, Declaring 'We Have Won Against ISIS,'" *New York Times*, December 19, 2018, <https://nyti.ms/2BqwWKE>.
- 5 "How a Victorious Bashar al-Assad is Changing Syria," *The Economist*, June 28, 2018, <https://econ.st/2DjXIXO>.
- 6 Speech by Syrian President Bashar al-Assad on August 20, 2017 to the Syrian Diplomatic Corps, <https://bit.ly/2TMsSfj>.
- 7 For information about the tactics employed by the Syrian regime to dissuade refugees from returning to Syria, see: "Four Ways in which the Syrian Regime Controls Refugee Return," *CRU Policy Brief*, Clingendael, Netherlands Institute of International Relations, September, 2018, <https://bit.ly/2BVEQw1>.
- 8 Assad referred to these figures, for example, during a conversation he had with the Deputy Prime Minister of Russia in December 2018: "Assad Says Syria Reconstruction to Cost \$400bn," *Islamic Invitation Turkey*, December 14, 2018, <https://bit.ly/2TSFq5d>.
- 9 European Council, "Supporting the Future of Syria and the Region – Brussels conference, 24-25/04/2018," <https://bit.ly/2Fwih4f>.
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- 11 "Iran Signs Deal to Build 540 MW Power Plant in Syria," *PressTV*, October 3, 2018, <https://www.presstv.com/Detail/2018/10/03/575918/Iran-Syria-electricity-power-plant-Assad-Latakia>; "Iran's Economic Gains in Syria," *IDF Perspective: Iran in Syria*, <https://bit.ly/2B1mzxI>.
- 12 The assistance was frozen in March and canceled in August 2018.
- 13 Guy Burton, "China and the Reconstruction of Syria," *The Diplomat*, July 28, 2018, <https://bit.ly/2HxpHXM>.