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The Economic Devastation of Syria: Strategic Implications

Eran Yashiv

The photo of wounded five-year old Omran Daqneesh sitting in an ambulance taken on August 18, 2016 in the Qaterji neighborhood of the northern Syrian city of Aleppo shocked the world, less than a year after pictures of the body of three-year old Alan Kurdi, which was found on a beach in Bodrum, sparked a similar reaction. Media reports over recent days also speak of no markets, no milk supply, no medications, and dwindling food supplies in the eastern, rebel-held parts of Aleppo that are home to 275,000 inhabitants. Indeed, probably more than one million residents of the greater Aleppo region suffer related difficulties. And while photos and harsh reports make a far greater impression than dry facts, it is important to reflect on the devastation of the Syrian economy wreaked by the civil war and the strategic implications of this economic disaster.

Even before the crisis, Syria was a poor economy. Its annual GDP per capita was less than \$3,000, lower than in neighboring Jordan and Lebanon. Its economy was highly dependent on oil – half of exports and a fifth of government revenues. The agricultural sector accounted for almost a fifth of GDP, unlike its tiny share in modern, advanced economies. From this poor benchmark the economy plunged much lower, and the numbers behind the destruction of the past five years are astounding. GDP per capita fell to less than a third of its pre-war level and is lower than in Gaza or the poorest African nations; Syria now ranks roughly 225 among the nations of the world. Total cumulative GDP loss is estimated to be over \$160 billion; and the capital stock fell to 43 percent of its pre-conflict level. This means that Syria has less than half the means it had before the crisis in terms of machines, equipment, structures, and other physical infrastructure that an economy uses to produce output. This is particularly disastrous for a poor economy, where physical capital is so important.

Even worse is the plight of people. The Syrian population fell from 21.8 million in 2010 to 20.2 million people by the end of 2015; demographic data suggest that had the conflict not taken place, the population would have reached 25.6 million. Estimates of conflict-related deaths range from 150,000 to 470,000, and by the end of 2015, the number of wounded was estimated at 1.88 million people. This means that approximately 11 percent

of the population inside Syria were killed or injured in the course of the war. Additionally, late 2015 estimates point to about 3.1 million refugees, 1.2 million migrants, and 6.4 million displaced persons within Syria. Currently 85 percent of the population is below the poverty line, and the unemployment rate has reached 53 percent. In economic terms of production and income, therefore, Syria has been extremely hard hit in terms of workers, not just capital. Many have fled, and those who stayed on are studying and working much less. There is an estimated loss of over 16,000 school years at all educational levels. A recent UNICEF report placed the loss in human capital at \$10.5 billion from the loss of education of Syrian children and youth.

The strategic implications of these figures are overwhelming: even with foreign aid, it would take the Syrian economy decades to recover to its previous level. The extent and nature of aid will be one of the key factors in determining the duration of reconstruction. Some damages look almost impossible to repair – people who fled the country may never come back; years of schooling are forever lost; and the damage to physical capital and human capital will probably require hundreds of billions of dollars to rebuild. The IMF cites two recent episodes of war and reconstruction in the region: "It took Lebanon, which experienced 16 years of conflict, 20 years to catch up to the GDP level it enjoyed before the war, while it took Kuwait...seven years to regain its pre-war GDP level"¹ following the Iraqi invasion and the Gulf War. With the damage in Syria far greater and the abundance of its resources smaller, the IMF estimates 20 years of reconstruction. This means that even under the best of circumstances Syria will need a very long period of time to regain the (poor) status it had before the civil war.

Yet another significant implication of these assessments is that a unified Syria would be a much more promising proposition than a fragmented one, at least in terms of economic rebuilding. All the more so, as international aid will not be so readily given to those parts of a fragmented Syria that are anathema to the rest of the world, such as the Islamic State. At the same time, the tremendous economic difficulties will engender a perpetual source of conflict, making unity all the more difficult.

Consequently, Syria no longer represents the stable rival with which Israel contended both in war and in peace negotiations, and such stability is unlikely to be the case going forward. Having a weakened, fractured rival is not necessarily good news, as the experience of Lebanon has shown. In particular, if one were to aim to resolve the Syria-Israel conflict, the prospects of a reasonable solution have dimmed significantly. That, of

¹ "Syria's Conflict Economy," IMF Working Paper, WP/16/123, June 2016.

course, has repercussions for other elements of Israel's relations with the Arab world, especially with Lebanon.

More broadly, the destruction in Syria gives new meaning to the concept of failed states. Syria is not only broken into pieces but is also non-viable economically. Under these circumstances, it can be safely assumed that neither a political agreement between the rival parties nor a military victory by one of them will pave the way for redirecting the devastated, disintegrated country back to normal course. The interactions between deeply ingrained sectarian conflicts and economic destruction on many dimensions are bound to play a key role. Right now, Syria's outlook looks extremely bleak.

